EXHIBIT 13-5

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 8582. Washington, DC: 2017.

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Name(s) shown on return. Do not enter name and social security number if shown on other side.	Your social security number
Marcella Doe	412-34-5670

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II **Income or Loss From Partnerships and S Corporations** **Note:** If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column **(e)** on line 28 and attach **Form 6198.** See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk, excess farm loss, or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section . . . ☐ **Yes** ☐ **No**

28	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk
A	Marcella's Partnership	P	☐	56-1234567	☐
B			☐		☐
C			☐		☐
D			☐		☐

	Passive Income and Loss		Nonpassive Income and Loss		
	(f) Passive loss allowed (attach Form 8582 if required)	(g) Passive income from Schedule K-1	(h) Nonpassive loss from Schedule K-1	(i) Section 179 expense deduction from Form 4562	(j) Nonpassive income from Schedule K-1
A	100,000	100,000			
B					
C					
D					
29a Totals		100,000			
b Totals	100,000				

30	Add columns (g) and (j) of line 29a . . .	30	100,000
31	Add columns (f), (h), and (i) of line 29b . . .	31	(100,000)
32	**Total partnership and S corporation income or (loss).** Combine lines 30 and 31. Enter the result here and include in the total on line 41 below . . .	32	0

Part III **Income or Loss From Estates and Trusts**

33	(a) Name	(b) Employer identification number
A		
B		

	Passive Income and Loss		Nonpassive Income and Loss	
	(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1
A				
B				
34a Totals				
b Totals				

35	Add columns (d) and (f) of line 34a . . .	35	
36	Add columns (c) and (e) of line 34b . . .	36	( )
37	**Total estate and trust income or (loss).** Combine lines 35 and 36. Enter the result here and include in the total on line 41 below . . .	37	

Part IV **Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder**

38	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b

39	Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below	39	

Part V **Summary**

40	Net farm rental income or (loss) from **Form 4835.** Also, complete line 42 below . . .	40	
41	**Total income or (loss).** Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Form 1040, line 17, or Form 1040NR, line 18 ▶	41	0
42	**Reconciliation of farming and fishing income.** Enter your **gross** farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120S), box 17, code V; and Schedule K-1 (Form 1041), box 14, code F (see instructions) . . 42		
43	**Reconciliation for real estate professionals.** If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040 or Form 1040NR from all rental real estate activities in which you materially participated under the passive activity loss rules . . 43		

Schedule E (Form 1040) 2017

EXHIBIT 13-6

Source: U.S. Department of the Treasury, Internal Revenue Service, Schedule E Form 1040. Washington, DC: 2017.

EXAMPLE 13-19

Over the years, Lori purchased interests in four passive partnerships. Partnerships A, B, and C conduct a trade or business, and Partnership D is a rental real estate company. Lori's AGI prior to the partnership gains/losses is $80,003. The four partnerships had the following gains and losses in the current year. Lori is sufficiently at-risk in each partnership.

Partnership	Income/Loss	Type
A	$60,000	Trade or business
B	(60,000)	Trade or business
C	(30,000)	Trade or business
D	(10,000)	Rental real estate

In this case, Lori can deduct $70,000 of the $100,000 in losses under the PAL rules: $60,000 is allowed to the extent of passive income (allocated to B and C), and the $10,000 loss from the rental real estate is allowed under the $25,000 offset rule. Lori allocates the suspended PALs to the loss properties as follows:

	$30,000 in suspended PAL		
	70,000 in PAL allowed		
Suspended			
Partnership B	$60,000/$90,000 × $30,000 suspended	=	$20,000 suspended to B
Partnership C	30,000/90,000 × 30,000 suspended	=	10,000 suspended to C
PAL allowed			
Partnership B	60,000/90,000 × 60,000 allowed PAL	=	40,000 allowed to B
Partnership C	30,000/90,000 × 60,000 allowed PAL	=	20,000 allowed to C
Partnership D		=	10,000 allowed to D

Partnership A shows $60,000 of income on Schedule E, and Partnerships B, C, and D show losses of $40,000, $20,000, and $10,000, respectively. See Exhibit 13-7 and Exhibit 13-8 for the correct presentation on Form 8582 and Schedule E, page 2, respectively.

TAX YOUR BRAIN

Why is it important that suspended losses be properly allocated to the various loss properties?

ANSWER

The primary reason is that when a passive activity is disposed of, the suspended losses are allowed. The suspended losses should be deducted in proportion to the activities that created the losses.

CONCEPT CHECK 13-3—LO 13-3

1. Which rules are applied first to a passive activity: the at-risk rules or the passive activity loss rules? Explain.
2. Why must suspended passive losses from several passive activities be allocated among the activities?
3. If a taxpayer has AGI of $105,000 before considering a $23,000 loss from a rental activity, how much can the taxpayer deduct from the rental activity, if any?

ALTERNATIVE MINIMUM TAX (AMT)

LO 13-4

The *alternative minimum tax* (AMT) is a separate tax system that attempts to levy tax on individuals (and corporations) who might otherwise escape taxation by using advanced tax incentives and programs provided in the IRC. The following is an excerpt from the Senate Finance Committee report providing the reasoning for the change in AMT rules:

page 13-21

Form **8582**

Department of the Treasury Internal Revenue Service (99)

Passive Activity Loss Limitations

▶ See separate instructions.

▶ Attach to Form 1040 or Form 1041.

▶ Go to *www.irs.gov/Form8582* for instructions and the latest information.

OMB No. 1545-1008

2017

Attachment Sequence No. **88**

Name(s) shown on return: Lori Doe

Identifying number: 412-34-5670

Part I **2017 Passive Activity Loss**

Caution: Complete Worksheets 1, 2, and 3 before completing Part I.

Rental Real Estate Activities With Active Participation (For the definition of active participation, see **Special Allowance for Rental Real Estate Activities** in the instructions.)

1a	Activities with net income (enter the amount from Worksheet 1, column (a))	1a			
b	Activities with net loss (enter the amount from Worksheet 1, column (b))	1b	(10,000)		
c	Prior years' unallowed losses (enter the amount from Worksheet 1, column (c))	1c	( )		
d	Combine lines 1a, 1b, and 1c			1d	(10,000)

Commercial Revitalization Deductions From Rental Real Estate Activities

2a	Commercial revitalization deductions from Worksheet 2, column (a)	2a	( )		
b	Prior year unallowed commercial revitalization deductions from Worksheet 2, column (b)	2b	( )		
c	Add lines 2a and 2b			2c	( )

All Other Passive Activities

3a	Activities with net income (enter the amount from Worksheet 3, column (a))	3a	60,000		
b	Activities with net loss (enter the amount from Worksheet 3, column (b))	3b	(90,000)		
c	Prior years' unallowed losses (enter the amount from Worksheet 3, column (c))	3c	( )		
d	Combine lines 3a, 3b, and 3c			3d	(30,000)

4	Combine lines 1d, 2c, and 3d. If this line is zero or more, stop here and include this form with your return; all losses are allowed, including any prior year unallowed losses entered on line 1c, 2b, or 3c. Report the losses on the forms and schedules normally used	4	(40,000)

If line 4 is a loss and:
- Line 1d is a loss, go to Part II.
- Line 2c is a loss (and line 1d is zero or more), skip Part II and go to Part III.
- Line 3d is a loss (and lines 1d and 2c are zero or more), skip Parts II and III and go to line 15.

Caution: If your filing status is married filing separately and you lived with your spouse at any time during the year, **do not** complete Part II or Part III. Instead, go to line 15.

Part II **Special Allowance for Rental Real Estate Activities With Active Participation**

Note: Enter all numbers in Part II as positive amounts. See instructions for an example.

5	Enter the **smaller** of the loss on line 1d or the loss on line 4			5	10,000
6	Enter $150,000. If married filing separately, see instructions	6	150,000		
7	Enter modified adjusted gross income, but not less than zero (see instructions)	7	80,003		
	Note: If line 7 is greater than or equal to line 6, skip lines 8 and 9, enter -0- on line 10. Otherwise, go to line 8.				
8	Subtract line 7 from line 6	8	69,997		
9	Multiply line 8 by 50% (0.50). **Do not** enter more than $25,000. If married filing separately, see instructions			9	25,000
10	Enter the **smaller** of line 5 or line 9			10	10,000

If line 2c is a loss, go to Part III. Otherwise, go to line 15.

Part III **Special Allowance for Commercial Revitalization Deductions From Rental Real Estate Activities**

Note: Enter all numbers in Part III as positive amounts. See the example for Part II in the instructions.

11	Enter $25,000 reduced by the amount, if any, on line 10. If married filing separately, see instructions	11	
12	Enter the loss from line 4	12	
13	Reduce line 12 by the amount on line 10	13	
14	Enter the **smallest** of line 2c (treated as a positive amount), line 11, or line 13	14	

Part IV **Total Losses Allowed**

15	Add the income, if any, on lines 1a and 3a and enter the total	15	60,000
16	**Total losses allowed from all passive activities for 2017.** Add lines 10, 14, and 15. See instructions to find out how to report the losses on your tax return	16	70,000

For Paperwork Reduction Act Notice, see instructions. Cat. No. 63704F Form **8582** (2017)

EXHIBIT 13-7

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 8582. Washington, DC: 2017.

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Schedule E (Form 1040) 2017 — Attachment Sequence No. 13 — Page 2

Name(s) shown on return. Do not enter name and social security number if shown on other side.	Your social security number
Lori Doe	412-34-5670

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II **Income or Loss From Partnerships and S Corporations** **Note:** If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column **(e)** on line 28 and attach **Form 6198.** See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk, excess farm loss, or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section . . . ☐ **Yes** ☐ **No**

28	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk
A	Partnership A	P	☐	56-1234567	☐
B	Partnership B	P	☐	57-1234567	☐
C	Partnership C	P	☐	58-1234567	☐
D	Partnership D	P	☐	59-1234567	☐

	Passive Income and Loss		Nonpassive Income and Loss		
	(f) Passive loss allowed (attach Form 8582 if required)	(g) Passive income from Schedule K-1	(h) Nonpassive loss from Schedule K-1	(i) Section 179 expense deduction from Form 4562	(j) Nonpassive income from Schedule K-1
A		60,000			
B	40,000				
C	20,000				
D	10,000				
29a Totals		60,000			
b Totals	70,000				

30	Add columns (g) and (j) of line 29a . . .	30	60,000
31	Add columns (f), (h), and (i) of line 29b . . .	31	(70,000)
32	**Total partnership and S corporation income or (loss).** Combine lines 30 and 31. Enter the result here and include in the total on line 41 below . . .	32	(10,000)

Part III **Income or Loss From Estates and Trusts**

33	(a) Name	(b) Employer identification number
A		
B		

	Passive Income and Loss		Nonpassive Income and Loss	
	(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1
A				
B				
34a Totals				
b Totals				

35	Add columns (d) and (f) of line 34a . . .	35	
36	Add columns (c) and (e) of line 34b . . .	36	( )
37	**Total estate and trust income or (loss).** Combine lines 35 and 36. Enter the result here and include in the total on line 41 below . . .	37	

Part IV **Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder**

38	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b

39	Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below	39	

Part V **Summary**

40	Net farm rental income or (loss) from **Form 4835.** Also, complete line 42 below . . .	40	
41	**Total income or (loss).** Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Form 1040, line 17, or Form 1040NR, line 18 ▶	41	(10,000)
42	**Reconciliation of farming and fishing income.** Enter your **gross** farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120S), box 17, code V; and Schedule K-1 (Form 1041), box 14, code F (see instructions) . .	42	
43	**Reconciliation for real estate professionals.** If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040 or Form 1040NR from all rental real estate activities in which you materially participated under the passive activity loss rules . .	43	

Schedule E (Form 1040) 2017

EXHIBIT 13-8

Source: U.S. Department of the Treasury, Internal Revenue Service, Schedule E Form1040. Washington, DC: 2017.

Reason for Change: The committee believes that the minimum tax should serve one overriding objective: to ensure that no taxpayer with substantial economic income can avoid significant tax liability by using exclusions, deductions, and credits. Although these provisions may provide incentives for worthy goals, they become counterproductive when taxpayers are allowed to use them to avoid virtually all tax liability. The ability of high-income individuals and highly profitable corporations to pay little or no tax undermines respect for the entire tax system and, thus, for the incentive provisions themselves. In addition, even aside from public perceptions, the committee believes that it is inherently unfair for high-income individuals and highly profitable corporations to pay little or no tax due to their ability to utilize various tax preferences.[23]

The AMT rules are based on the notion of alternative minimum taxable income (AMTI). To determine AMTI, the taxpayer starts with regular taxable income calculated in accordance with the laws discussed throughout this text. The taxpayer then makes adjustments to regular taxable income to arrive at AMTI, which is used to calculate the minimum tax liability using. The AMT tax rate is 26% on the first $187,800 and then moves to 28%. The AMT for an individual taxpayer is reported on Form 6251.

AMT Formula

The base formula for calculating AMT is this:[24]

Regular taxable income		
	+	Personal/dependency exemptions and standard deduction if the taxpayer does not itemize.[a]
	+/−	Adjustment items[b]
	+	Tax preference items[c]
	=	Alternative minimum taxable income (AMTI)
	−	AMT exemption amount[d]
	=	Alternative minimum tax base
	×	Tax rate of either 26% (or 28% less $3,756[e])
	=	Tentative minimum tax
	−	Regular tax
	=	Alternative minimum tax

[a] IRC § 56(b)(1)(E).
[b] IRC § 56.
[c] IRC § 57.
[d] IRC § 55(d)(1).
[e] IRC § 55(b)(1)(A).

It is important to note that a taxpayer does not owe any AMT unless the AMT calculation results in an amount higher than the regular tax. Also note that the AMT tax rate is either 26% or 28%. If the taxpayer's AMTI is $187,800 or less, the AMT rate is 26%. If the AMTI amount is more than $187,800, the AMT rate is 28%. When the rate is 28%, $3,756 is then subtracted from the resulting AMT tax calculation. For taxpayers with net capital gains or qualified dividend income, the tax rates for these items are the same for both AMT and regular tax purposes.

AMT Adjustment Items

Adjustments to regular income to arrive at AMTI can be either positive or negative.[25] The adjustments could reduce AMTI to the point that a taxpayer will not be subject to AMT. However, most adjustments increase AMTI. Table 13-3 lists the primary AMT adjustments.[26]

Only those adjustments affecting numerous taxpayers are covered in detail in this section. For more obscure adjustments, see the instructions for Form 6251 and IRC § 56.

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TABLE 13-3 Adjustments to AMT

Standard deduction and personal/dependency exemptions not allowed.
Depreciation placed in service after 1986 and before 1999.
Depreciation exceeding 150% declining balance for some assets placed in service after 1998.
Adjustments to gains and losses on the sale of assets (different gains are caused by different depreciation methods).
Treatment of incentive stock options.
Passive activities (differences in regular tax passive loss and AMT passive loss allowed).
Beneficiaries of estates and trusts (differences in regular income or loss and amount of AMT income or loss).
Treatment of long-term contracts.
Others.

Standard Deduction, Exemptions, and Itemized Deduction Limits

If the taxpayer does not itemize and takes the standard deduction for regular tax purposes, the standard deduction is added back as a positive adjustment to AMTI. Likewise, the personal exemptions are also added as

a positive adjustment.[27]

EXAMPLE 13-20

Roland is married, files a joint return, and has two children. Because he rents his home (pays no mortgage interest) and lives in Florida (has no state income tax), he does not itemize his deductions but takes the standard deduction. Roland would have the following positive adjustments for AMTI:

Standard deduction	$12,600
Personal exemptions (4 x $4,050)	16,200*
	$28,800

* Because only high-income taxpayers are usually subject to AMT, the personal

Limitations on Itemized Deductions

Several itemized deductions are either limited or disallowed in determining AMTI. For example, the AGI floor for medical expenses is 10% of AGI even for taxpayers 65 and over who still get the 7.5% floor (after 2017, the 10% limit also applies to seniors). Any itemized deduction for taxes or miscellaneous itemized deductions are totally disallowed for AMT purposes.[28] The itemized deduction for mortgage interest is also modified for AMTI because only mortgage interest used to build, buy, or substantially improve the taxpayer's home or second home is allowed. Interest expense from a home equity loan to purchase an auto or other asset (qualified housing interest) is disallowed for AMT purposes and causes a positive AMT adjustment. This qualified housing interest is treated as investment interest and is deductible only to the extent of investment income. All other itemized deductions are allowed as AMT deductions. If the taxpayer's total itemized deduction is limited by the 3%/80% phaseout, the amount of the phaseout would be a negative AMT adjustment.

Table 13-4 summarizes the AMT adjustments for itemized deductions.

Depreciation Adjustment for AMT

Nearly every taxpayer who calculates depreciation on his or her tax return will have a depreciation adjustment for AMT purposes. For most assets,

depreciation must be recalculated using methods allowable for AMT. The method and life used vary depending on when the asset was placed in service and the type of property (real property or personal property).

Real Property Placed in Service after 1986 and before 1999

Depreciation (for regular tax purposes) on all depreciable real property placed in service after 1986 and before 1999 is calculated using the straight-line method. The only difference is the depreciation life of 27.5 years for residential real property and 39 years for nonresidential real property.[30] For AMT purposes, the depreciation life is 40 years for *all* real property (straight-line and mid-month conventions stay the same). Table 13 in Revenue Procedure 87-57 is the appropriate table to use for the depreciation calculation for real property under the AMT rules. Table 13 is reproduced in the Appendix to this chapter (Table 13A-1).

TABLE 13-4 Summary of AMT Adjustments for Itemized Deductions

Medical	AGI floor of 10% for all taxpayers
Taxes	Not allowed for AMT.
Mortgage interest	Allowed for AMT only if the interest is to build, buy, or substantially improve the taxpayer's residence.
Gifts to charity	Allowed for AMT subject to the same limitations as regular tax.
Casualty and theft losses	Allowed for AMT subject to the same limitations as regular tax.
Miscellaneous itemized deductions	Not allowed for AMT.

EXAMPLE 13-21

Suppose that Jergen had the Schedule A shown in Exhibit 13-9 for his regular tax return. The mortgage interest is all qualified mortgage interest to purchase his personal residence.

For AMT purposes, Jergen has the following adjustments:

Itemized Deduction	Regular Tax	Permitted AMT Deduction	AMT Adjustment
Medical	$53,150	$53,150	$ –0–
Taxes	49,350	–0–	49,350
Mortgage interest	15,400	15,400	–0–
Charitable contributions	12,800	12,800	–0–
Miscellaneous deductions	1,880	–0–	1,880
	Total AMT adjustment for itemized deductions		$51,230

Because taxes are not allowed as an AMT deduction, any income from tax refunds included in regular taxable income results in a negative AMT adjustment.[29]

EXAMPLE 13-22

Alex purchased a warehouse for $310,000 in August 1998. The regular depreciation and AMT depreciation for 2015 are calculated as follows:

Regular Tax Depreciation (Table 6A-8—Chapter 6)	AMT Depreciation (Appendix Table 13A-1)	Adjustment
$310,000 × 2.564% = $7,948	$310,000 × 2.5% = $7,750	$198

The depreciation adjustment is only $198 for this asset. This is a small adjustment because the depreciation lives are virtually the same: 39 years for regular taxes compared to 40 years for AMT purposes.

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SCHEDULE A (Form 1040)

Department of the Treasury, Internal Revenue Service (99)

Itemized Deductions

▶ Go to *www.irs.gov/ScheduleA* for instructions and the latest information.

▶ Attach to Form 1040.

OMB No. 1545-0074 — **2017** — Attachment Sequence No. **07**

Name(s) shown on Form 1040: **Jergen Taxpayer** — Your social security number: **412-34-5670**

Section	Line	Description	Box	Amount	Box	Amount
Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see instructions)	1	77,750		
	2	Enter amount from Form 1040, line 38 [2] 246,000				
	3	Multiply line 2 by 10% (0.10)	3	24,600		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	53,150
Taxes You Paid	5	State and local (**check only one box**):				
		a ☑ Income taxes, **or** / b ☐ General sales taxes	5	40,300		
	6	Real estate taxes (see instructions)	6	7,000		
	7	Personal property taxes	7	1,150		
	8	Other taxes. List type and amount ▶	8			
	9	Add lines 5 through 8			9	49,350
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10	15,400		
Note: Your mortgage interest deduction may be limited (see instructions).	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11			
	12	Points not reported to you on Form 1098. See instructions for special rules	12			
	13	Reserved	13			
	14	Investment interest. Attach Form 4952 if required. See instructions	14			
	15	Add lines 10 through 14			15	15,400
Gifts to Charity	16	Gifts by cash or check. If you made any gift of $250 or more, see instructions	16	12,800		
If you made a gift and got a benefit for it, see instructions.	17	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	17			
	18	Carryover from prior year	18			
	19	Add lines 16 through 18			19	12,800
Casualty and Theft Losses	20	Casualty or theft loss(es). Attach Form 4684. See instructions			20	
Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions. ▶	21	6,000		
	22	Tax preparation fees	22	800		
	23	Other expenses—investment, safe deposit box, etc. List type and amount ▶	23			
	24	Add lines 21 through 23	24	6,800		
	25	Enter amount from Form 1040, line 38 [25] 246,000				
	26	Multiply line 25 by 2% (0.02)	26	4,920		
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27	1,880
Other Miscellaneous Deductions	28	Other—from list in instructions. List type and amount ▶			28	
Total Itemized Deductions	29	Is Form 1040, line 38, over $156,900? ☐ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. ☑ **Yes.** Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.			29	132,580
	30	If you elect to itemize deductions even though they are less than your standard deduction, check here ▶ ☐				

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C Schedule A (Form 1040) 2017

EXHIBIT 13-9

Source: U.S. Department of the Treasury, Internal Revenue Service, SCHEDULE A Form1040. Washington, DC: 2017.

EXAMPLE 13-23

Assume the same facts as in Example 13-22, but the property is an apartment building instead of a warehouse.

Regular Tax Depreciation (Table 6A-6—Chapter 6)	AMT Depreciation (Appendix Table 13A-1)	Adjustment
$310,000 × 3.636% = $11,272	$310,000 × 2.5% = $7,750	$3,522

In Example 13-23, the adjustment of $3,522 is higher because the depreciable lives are 27.5 years for regular tax purposes and 40 years for AMT purposes.

Real Property Placed in Service after 1998

Congress changed the law for real property placed in service after 1998. Because the depreciation difference affected only the depreciation life and the difference was only one year in the case of nonresidential real property, Congress eliminated this adjustment. For real property placed in service after 1998, there is no adjustment for depreciation.

Personal Property Placed in Service after 1986 and before 1999

For personal property, both the depreciation method and the class life are different under AMT rules. Regular MACRS depreciation for personal property is 200% declining balance (DB), and the life is determined under the general depreciation system (GDS). However, only 150% declining balance is allowed for AMT, and the life is determined under the alternative depreciation system (ADS). Both Revenue Procedure 87-56 and IRS Publication 946 present the different depreciation systems and corresponding lives.

The AMT lives are almost always longer (*never* shorter) than the regular tax lives. Longer lives and a less aggressive depreciation method (150% DB versus 200% DB) ensure that a positive AMTI adjustment results for personal property. This adjustment is becoming less important because most of these assets were fully depreciated for regular tax purposes during the 2006 tax year and fully depreciated for AMT in the 2009 tax year.

TAX YOUR BRAIN

Will the AMT depreciation adjustment for these assets be larger or smaller as the years progress?

ANSWER

It will be smaller. Because a higher amount of depreciation is taken in the early years with accelerated methods, the 200% declining balance depreciation will decline more rapidly than the 150% declining balance as the assets get older. Thus the difference between the two numbers will narrow. The adjustment will actually become negative in the last years of depreciation.

Personal Property Placed in Service after 1998

In an attempt to simplify AMT calculations, Congress again changed the treatment of AMT depreciation for personal property. For any personal assets placed in service after 1998, the depreciation lives for AMT purposes are the same as for regular taxes (both will use the GDS life). The method still differs (150% DB for AMT and 200% DB for MACRS) for assets placed in service before then.

EXAMPLE 13-24

Andrew has two depreciable business assets. AMT depreciation is calculated using 150% DB; the MACRS method is 200% DB. Depreciation for tax year 2017 (the eighth year of depreciation) yields the following AMT.[31] The AMT depreciation percentages are found in Table 14 of Rev. Proc. 87-57. This table is partially reproduced in Table 13A-2 in the appendix to this chapter.[32]

Asset	Date Purchased	Cost	MACRS Life/ AMT Life	MACRS Depreciation	AMT Depreciation	Adjustment
Furniture 1	02/12/2010	$ 7,000	7-year	$312	$429	$(117)
Furniture 2	11/15/2010	12,000	7-year	535	736	(201)
					AMT adjustment	$(318)

Basis Calculation: Different Gains and Losses for AMT Purposes

Because of the different depreciation methods for AMT and for regular tax, accumulated depreciation and the adjusted basis of the assets are different. The different basis causes different gains and losses when assets are disposed.

EXAMPLE 13-25

Suppose we purchased furniture on February 10, 2015, for $6,000. On March 2, 2017, we sold the furniture for $4,300. The depreciation expense and gain for regular tax purposes are calculated as follows (seven-year, 200% DB):

Year	Adjusted Basis	Depreciation Expense	Accumulated Depreciation
2015	$6,000	$ 857	$ 857
2016	5,143*	1,469	2,326
2017	3,674	525†	2,851
			$3,149
Regular tax gain		$4,300 – $3,149 = $1,151	

* The depreciation tables are structured such that depreciation is always calculated by multiplying the original cost basis by the appropriate percentage.
† One-half year of depreciation is allowed in the year of disposal.

The AMT depreciation, AMT adjusted basis, and AMT gain are calculated as follows (seven-year, 150% DB):

Year	Adjusted Basis	Depreciation Expense	Accumulated Depreciation
2015	$6,000	$ 643	$ 643
2016	5,357	1,148	1,791
2017	4,209	451	2,242
			$3,758
AMT gain		$4,300 – $3,758 = $542	

The sale of this asset would result in a negative AMT adjustment of $609 ($1,151 regular tax gain less the $542 AMT gain).

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TAX YOUR BRAIN

Why does the difference in gains result in a negative AMT adjustment that reduces AMT income?

ANSWER

The regular tax gain of $1,151 is already included in taxable income (the starting point for AMT calculations). The AMT gain is $609 less than the regular tax gain. Therefore, AMT income should be reduced to reflect the lower gain.

Incentive Stock Options Adjustment

For regular tax purposes, no income is recognized when an incentive stock option is exercised. This is not the case with AMT. For AMT purposes, the positive adjustment is equal to the FMV of the stock less the amount the taxpayer paid for it (including any amount paid for the option).[33]

EXAMPLE 13-26

Bob works for a large publicly traded company and regularly receives incentive stock options as bonuses. Bob exercises options to purchase 1,000 shares at $12 per share when the market value is $18. Bob's AMT adjustment is calculated as follows:

Market value	1,000 shares x $18 per share	=	$18,000
Cost of stock	1,000 shares x $12 per share	=	12,000
AMT adjustment			$ 6,000

The AMT basis in the stock is increased by the amount of the adjustment. Thus, when the stock is sold, the gain or loss will be different for AMT purposes than for regular tax purposes. In Example 13-26, the stock basis is $12,000 for regular tax purposes and $18,000 for AMT.

Passive Activity Adjustment and K-1 Adjustments

AMTI is also adjusted for differences in passive losses and other adjustments originating from flow-through entities such as partnerships, estates, and trusts. The rule that passive activity losses are allowed only to the extent of passive income pertains to both regular tax and AMT calculations. However, the amount of passive loss and passive income will be different for AMT because all of the adjustments and preferences discussed in this chapter also apply to the passive activities (for example,

depreciation must be calculated differently using the AMT rules). These adjustments are reported to the taxpayer via the K-1 received from the flow-through entity.

Treatment of Long-Term Contracts

For AMT purposes, a taxpayer must use the percentage of completion method rather than the completed contract method to report the income from long-term contracts. The adjustment is the difference between the income under the percentage of completion method and income determined for regular tax. In the year in question, if AMT income is smaller, the adjustment is negative. A negative adjustment is likely to occur in the year the contract is completed. This adjustment rarely, if ever, affects individual taxpayers.

Tax Preference Items

Unlike adjustments, tax items result only in additions to AMTI. Tax preference items are typically more specific and affect taxpayers only in certain industries. This is true for individual taxpayers because individuals are unlikely to conduct business in certain industries other than a corporation or other entity form. Tax preference items are more likely to flow through from a K-1 than be directly calculated by the taxpayer. Some preference items can, however, affect individual taxpayers. The following is a summary of the pertinent tax preference items that could affect an individual taxpayer. Form 6251 gives a complete list of tax preferences.

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Depreciation on Pre-1987 Assets

For all real property placed in service prior to 1987 and depreciated under an accelerated method, depreciation must be recalculated for AMT using the straight-line method over a 19-year life. The excess of regular tax depreciation over the straight-line depreciation is a *tax preference item.* Only a positive amount is reported. If the 19-year straight-line method results in more depreciation, no preference item is included. In tax year 2008, straight-line depreciation should be higher because the newest asset in this category was purchased in 1986. This preference item is considerably less important as time passes and pre-1986 assets approach the end of their depreciable lives.

IRC § 1202 Exclusion

One preference item that can cause a substantial increase in AMTI for an

individual taxpayer is the preference for the § 1202 exclusion (discussed in Chapter 7), which allows 50% (and possibly as much as 75%) of any gain from the sale of "qualified small business stock" to be excluded from regular tax. However, for AMT purposes, 7% of the amount excluded must be added as a tax preference item for post–May 5, 2003, sales.[34] The 2012 Taxpayer Relief Act made the 7% AMT preference item permanent. This preference will not apply to qualified small business stock purchased between September 1, 2010, and January 1, 2014. Additional dates of purchase apply to this provision; see IRC § 57(a)(7) for more information.

EXAMPLE 13-27

Richard invested in a local corporation with gross assets of $15,000,000. He purchased 500 shares for $25,000 in 2001. On June 6, 2017, Richard sold the stock for $45,000. One-half of the $20,000 gain is excluded from gross income for regular tax purposes under § 1202. For AMT, a tax preference item of $700 ($10,000 exclusion × 7%) is added to AMTI.

Other Preference Items

The following is a list of other preference items that an individual taxpayer may be subject to in certain limited situations. A detailed discussion of these items is beyond the scope of this text. Preference items include these:

Percentage depletion taken in excess of the basis of the property.

Excess intangible drilling and development costs.

Tax-exempt interest on private activity bonds.

Amortization of pollution control facilities placed in service before 1987.[35]

Exemption Amount

After all of the tax preference items and AMT adjustments have been included, the taxpayer reduces AMTI by an exemption amount. The exemption amount varies depending on the filing status of the taxpayer and level of AMTI. The exemption amounts follow:

Filing Status	AMTI Not More Than	2017 Exemption Amount
Single/head of household	$120,700	$54,300

Married filing jointly/qualifying widow(er)	160,900	84,500
Married filing separately	80,450	42,250

The exemption amount is reduced by 25% of AMTI in excess of the income limit in the “AMTI Not More Than” column.

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EXAMPLE 13-28

After computing all tax preferences and AMT adjustments, Alex and his wife Brooke have AMTI of $255,000. Because Alex and Brooke file a joint tax return, their initial exemption is $84,500. However, because their AMTI is more than $160,900, the exemption is reduced to $60,975: ($84,500 − 0.25[$255,000 − $160,900]).

COMPREHENSIVE AMT EXAMPLE

This comprehensive AMT example uses components of many of the examples throughout this chapter.

Jergen Trade is married with two children. His Form 1040 shows regular taxable income of $97,220 (AGI $246,000 − Itemized deductions of $132,580 − Exemptions of $16,200). His regular tax liability is $15,784. He also has the following AMT adjustments and preferences:

1. Itemized deductions (Example 13-21):

Itemized Deduction	Regular Tax	AMT Deduction	AMT Adjustment
Medical	$53,150	$53,150	$ –0–
Taxes	49,350	–0–	49,350
Mortgage interest	15,400	15,400	–0–
Charitable contributions	12,800	12,800	–0–
Miscellaneous deductions	1,880	–0–	1,880
	Total AMT adjustment for itemized deductions		$51,230

2. Depreciation of an apartment purchased in August 1998 for $310,000 (Example 13-23):

Regular Tax Depreciation	AMT Depreciation	Adjustment
2017 $310,000 × 3.636% = $11,272	$310,000 × 2.5% = $7,750	$3,522

3. Depreciation on personal property (Example 13-24):

Asset	Date Purchased	Cost	MACRS Life/AMT Life	MACRS Depreciation	AMT Depreciation	Adjustment
Furniture 1	02/12/10	$ 7,000	7-year	$312	$429	$(117)
Furniture 2	11/15/10	12,000	7-year	535	736	(201)
					AMT adjustment	$(318)

4. Different basis (gain or loss) on the sale of an asset (see Example 13-25 for the calculations):

Regular tax gain	$4,300 − $3,149 = $1,151
AMT gain	$4,300 − $3,758 = 542

The sale of this asset would result in a $609 negative AMT adjustment ($1,151 tax gain − $542 AMT gain).

5. Incentive stock option adjustment (Example 13-26): Jergen exercises options to purchase 1,000 shares at $12 per share when the market value is $18. His AMT adjustment is calculated as follows:

Market value	1,000 shares × $18 per share	=	$18,000
Cost of stock	1,000 shares × $12 per share	=	12,000
AMT adjustment			$ 6,000

Exhibit 13-10 illustrates a completed Form 6251 and the calculated AMT of $8,092.

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Form **6251**

Department of the Treasury
Internal Revenue Service (99)

Alternative Minimum Tax—Individuals

▶ Go to www.irs.gov/Form6251 for instructions and the latest information.
▶ Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074
2017
Attachment Sequence No. 32

Name(s) shown on Form 1040 or Form 1040NR: Jergen Trade
Your social security number: 412-34-5670

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)	1	113,420
2	Reserved for future use	2	
3	Taxes from Schedule A (Form 1040), line 9	3	49,350
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet in the instructions for this line	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5	1,880
6	If Form 1040, line 38, is $156,900 or less, enter -0-. Otherwise, see instructions	6	( )
7	Tax refund from Form 1040, line 10 or line 21	7	( )
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Alternative tax net operating loss deduction	11	( )
12	Interest from specified private activity bonds exempt from the regular tax	12	
13	Qualified small business stock, see instructions	13	
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14	6,000
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15	
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16	
17	Disposition of property (difference between AMT and regular tax gain or loss)	17	(609)
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18	3,204
19	Passive activities (difference between AMT and regular tax income or loss)	19	
20	Loss limitations (difference between AMT and regular tax income or loss)	20	
21	Circulation costs (difference between regular tax and AMT)	21	
22	Long-term contracts (difference between AMT and regular tax income)	22	
23	Mining costs (difference between regular tax and AMT)	23	
24	Research and experimental costs (difference between regular tax and AMT)	24	
25	Income from certain installment sales before January 1, 1987	25	( )
26	Intangible drilling costs preference	26	
27	Other adjustments, including income-based related adjustments	27	
28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $249,450, see instructions.)	28	173,245

Part II Alternative Minimum Tax (AMT)

29 Exemption. (If you were under age 24 at the end of 2017, see instructions.)

IF your filing status is . . .	AND line 28 is not over . . .	THEN enter on line 29 . . .
Single or head of household	$120,700	$54,300
Married filing jointly or qualifying widow(er)	160,900	84,500
Married filing separately	80,450	42,250

If line 28 is **over** the amount shown above for your filing status, see instructions. — **29** 81,414

30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 31, 33, and 35, and go to line 34	30	91,831
31	• If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 64 here. • **All others:** If line 30 is $187,800 or less ($93,900 or less if married filing separately), multiply line 30 by 26% (0.26). Otherwise, multiply line 30 by 28% (0.28) and subtract $3,756 ($1,878 if married filing separately) from the result.	31	23,876
32	Alternative minimum tax foreign tax credit (see instructions)	32	0
33	Tentative minimum tax. Subtract line 32 from line 31	33	23,876
34	Add Form 1040, line 44 (minus any tax from Form 4972), and Form 1040, line 46. Subtract from the result any foreign tax credit from Form 1040, line 48. If you used Schedule J to figure your tax on Form 1040, line 44, refigure that tax without using Schedule J before completing this line (see instructions)	34	15,784
35	**AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	8,092

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 13600G Form **6251** (2017)

EXHIBIT 13-10

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 6251. Washington, DC: 2017.

From Shoebox to Software

Tax software performs most of the AMT calculation automatically. All of the itemized deduction adjustments and the AMT depreciation calculations transfer to Form 6251. For some of the unique adjustments, the taxpayer must enter the adjustments and preferences directly on Form 6251.

Some explanation is necessary concerning certain items on Form 6251 in Exhibit 13-10:

Line 1: This is taxable income ($113,420) before personal and dependency exemptions. Recall that personal exemptions are not allowed for AMT purposes. Instead of adding the personal exemptions as an adjustment, taxable income is taken from line 41 of Form 1040. Line 41 is immediately before the exemptions are deducted.

Line 18: The depreciation adjustment of $3,204 is a combination of the real property depreciation adjustment of $3,522 and the personal property depreciation adjustment of $(318).

Line 28: The AMT exemption is $84,500 for married taxpayers. However, the exemption is reduced by 25% of the amount AMTI is over $160,900. The exemption is calculated as $84,500 − (25% [$173,245 − 160,900]) = $81,414.

Line 31: Because AMTI after the exemption is less than $187,800, the AMT rate is 26%. The resulting tentative tax is $23,876 ($91,831 × 26%).

Lines 34 and 35: The regular tax is $15,784. The difference between the tax calculated under the AMT rules and the regular tax is equal to the AMT of $8,092. If the taxpayer had capital gains and the regular tax was calculated on page 2 of Schedule D, the AMT would be calculated on page 2 of Form 6251 (not shown). The preferential capital gain rates are allowed for AMT purposes.

CONCEPT CHECK 13-4—LO 13-4

1. Medical expenses are allowed in full (same as the regular tax) for AMT purposes. True or false?

2. No taxes are allowed as a deduction for AMT purposes. True or false?

3. If a taxpayer is married and has eight children, his exemptions for regular tax purposes could be $40,500 (10 exemptions × $4,050). None of this amount would be allowed for AMT purposes. True or false?

4. If a taxpayer's AMTI is $187,800 or less, the AMT tax rate would be 26%. True or false?

Summary

LO 13-1: Explain the process of applying the at-risk rules.

- The initial at-risk amount is the money plus the adjusted basis of property contributed.
- The at-risk amount is increased by income/gain items, additional contributions, and the taxpayer's share of recourse liabilities.
- Loss deductions and distributions are limited to the amount that the taxpayer has at-risk.

LO 13-2: Describe the rules and applications related to passive activities.

- A passive activity is one in which the taxpayer does not materially participate.
- A passive loss is generally deductible only to the extent of passive income.
- Low-income taxpayers could be able to offset up to $25,000 of passive rental loss against other income.
- When a passive activity is sold, suspended passive losses from past years are allowed to offset nonpassive income.

LO 13-3: Explain how the passive activity loss rules and at-risk rules work together to limit the deductibility of losses.

- For a loss to be deductible, it must first be allowed under the at-risk rules before the PAL rules can be applied.
- Suspended PALs must be allocated to individual properties.

LO 13-4: Explain the alternative minimum tax and how it is calculated.

- The AMT is a separate tax system to limit taxpayers with substantial income from avoiding paying tax by using exclusions, deductions, and credits.
- Itemized deductions for taxes and miscellaneous deductions are disallowed for AMT.
- Personal exemptions are not allowed for AMT.
- The AMT rate is 26% for AMTI of $187,800 or less, and 28% for AMTI over $187,800.

Appendix

Tables 13A-1 and 13A-2 are reproductions of Tables 13 and 14 in Rev. Proc. 87–57.

DEPRECIATION TABLE 13A-1 Alternative Depreciation System Straight-Line Applicable Recovery Period: 40 Years

Mid-Month Convention												
	Month in the First Recovery Year the Property Is Placed in Service											
Recovery Year	1	2	3	4	5	6	7	8	9	10	11	12
1	2.396	2.188	1.979	1.771	1.563	1.354	1.146	.938	.729	.521	.313	.104
2–40	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500
41	.104	.312	.521	.729	.937	1.146	1.354	1.562	1.771	1.979	2.187	2.396

DEPRECIATION TABLE 13A-2 Alternative Minimum Tax 150% Declining Balance Switching to Straight-Line Recovery Period: 2.5–50 Years

Half-Year Convention						
	Partial Table of Table 14 Rev. Proc. 87-57					
Recovery Year	4.0	5.0	6.0	7.0	10.0	12.0
1	18.75	15.00	12.50	10.71	7.50	6.25
2	30.47	25.50	21.88	19.13	13.88	11.72
3	20.31	17.85	16.41	15.03	11.79	10.25
4	20.31	16.66	14.06	12.25	10.02	8.97
5	10.16	16.66	14.06	12.25	8.74	7.85
6		8.33	14.06	12.25	8.74	7.33
7			7.03	12.25	8.74	7.33
8				6.13	8.74	7.33
9					8.74	7.33
10					8.74	7.33
11					4.37	7.32
12						7.33
13						3.66

Discussion Questions

All applicable discussion questions are available with ***Connect***©

LO 13-1 1. Discuss the *at-risk* concept and how it applies to the deductibility of investment losses.

LO 13-1 2. What amounts are considered at-risk when making the determination of a deductible loss?

LO 13-1 3. What are the differences between recourse, nonrecourse, and qualified nonrecourse liabilities? Which liabilities are considered at-risk?

LO 13-2 4. What is a *passive activity*? What types of activities are automatically considered passive?

LO 13-2 5. Discuss the concept of *material participation*. To be considered a material participant, what tests must the taxpayer satisfy?

LO 13-2 6. When a loss is disallowed under the passive activity loss rules, what happens to that loss in future years?

LO 13-2 7. Discuss the rules concerning the $25,000 loss offset for rental activities. Why are losses of $25,000 allowed for some taxpayers?

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LO 13-2 8. What are the differences between material participation, active participation, and significant participation?

LO 13-2 9. When a passive activity is sold or otherwise disposed of, what happens to any suspended losses from that activity?

LO 13-3 10. When must Form 6198 and Form 8582 be filed? Does the taxpayer file more than one Form 6198 or Form 8582?

LO 13-3 11. How do the passive loss rules and the at-risk rules work in conjunction to limit losses?

12. Discuss the AMT formula and how it relates to the regular income tax. Include in your discussion factors that cause AMT to be assessed.
LO 13-4

13. What AMT adjustment items are likely to affect all taxpayers who itemize their deductions? Give examples.
LO 13-4

14. Are medical expenses treated differently for AMT purposes than for regular tax purposes? If so, explain.
LO 13-4

LO 13-4

15. Are the depreciation lives the same for AMT purposes as for regular tax purposes? If not, how are the lives determined for AMT?

LO 13-4

16. Discuss the tax basis calculation adjustment. Why is the gain or loss on the sale of depreciable assets different for AMT purposes than for regular tax purposes?

Multiple-Choice Questions

All applicable multiple-choice questions are available with ***Connect***©

LO 13-1

17. Which of the following increases a taxpayer's at-risk amount?
    a. Cash and the adjusted basis of property contributed to the activity.
    b. Borrowed amounts used in the activity for which the taxpayer is personally liable.
    c. Income from the activity.
    d. All of the above.

LO 13-1

18. Which of the following increases a taxpayer's at-risk amount?
    a. Cash distributions.
    b. Property distributions.
    c. Increased share of liabilities.
    d. Loss items.

LO 13-1 19. In 2017, Kirsten invested $20,000 for a 10% partnership interest (not a passive activity). The partnership has losses of $150,000 in 2017 and $250,000 in 2018. Kirsten's share of the partnership's losses is $15,000 in 2017 and $25,000 in 2018. How much of the losses from the partnership can Kirsten deduct?

a. $0 in 2017 and $0 in 2018.

b. $15,000 in 2017 and $5,000 in 2018.

c. $15,000 in 2017 and $25,000 in 2018.

d. $20,000 in 2017 and $0 in 2018.

LO 13-1 20. Leonard invests $10,000 cash in an equipment-leasing activity for a 15% share in the business. The 85% owner is Rebecca, who contributes $10,000 and borrows $75,000 to put in the business. Only Rebecca is liable for repayment of the loan. The partnership incurs a loss of $125,000 during the year. What amounts of the loss are deductible currently by Leonard and Rebecca (ignore passive loss rules)?

a. $0 by Leonard and $0 by Rebecca.

b. $10,000 by Leonard and $85,000 by Rebecca.

c. $18,750 by Leonard and $106,250 by Rebecca.

d. $21,250 by Leonard and $73,750 by Rebecca.

LO 13-1 21. Myer owns a 20% interest in a partnership (not involved in real estate) in which his at-risk amount was $50,000 at the beginning of the year. During the year, he receives a $40,000 distribution from the partnership. The partnership produces a $160,000 loss during the year. What is Myer's deductible loss for the year (ignore passive loss rules)?

a. $0.

b. $10,000.

c. $32,000.

d. $50,000.

LO 13-1 22. Alcott invested $20,000 for a 25% interest in a partnership (not a passive activity) on January 1, 2017. The partnership borrowed $100,000 (with full recourse to the partners) on January 15, 2017, to cover short-term cash flow requirements. During the year, the partnership generated a $60,000 loss. By December 31, 2017, the partnership had paid off $20,000 of the loan. What is Alcott's at-risk amount on January 1, 2018?

a. $20,000.

b. $25,000.

c. $40,000.

d. $45,000.

LO 13-1 23. Agnes and Aunt Sue each invested $140,000 cash in the A&S Partnership, and each received a 50% interest in the partnership. To finance her investment in the partnership, Agnes borrowed $60,000 on a full recourse basis from her partner, Aunt Sue. Which of the following is correct?

a. Agnes's at-risk amount in her partnership interest is $80,000.

b. Aunt Sue's at-risk amount in her partnership interest is $140,000.

c. Agnes's at-risk amount in her partnership interest is $140,000.

d. Aunt Sue's at-risk amount in her partnership interest is $80,000.

LO 13-2 24. Which of the following would be considered a passive activity?

a. A limited partnership interest.

b. Most rental real estate activities.

c. A trade or business in which the taxpayer does not materially participate.

d. All of the above.

LO 13-2 25. Sylvester, an accountant, owns a mail-order business in which he participates. He has one employee who works part-time in the business. Which of the following statements is *not* correct?

a. If Sylvester participates for 600 hours and the employee participates for 1,000 hours during the year, Sylvester qualifies as a material participant.

b. If Sylvester participates for 120 hours and the employee participates for 125 hours during the year, Sylvester does not qualify as a material participant.

c. If Sylvester participates for 495 hours and the employee participates for 520 hours during the year, Sylvester qualifies as a material participant.

d. If Sylvester participates for 105 hours and the employee participates for 5 hours during the year, Sylvester probably qualifies as a material participant.

LO 13-2 26. Janel owns five small businesses, each of which has its own manager and employees. Janel spends the following number of hours this year working in the various businesses: Business A, 130 hours; Business B, 160 hours; Business C, 110 hours; Business D, 120 hours; Business E, 100 hours. Which of the following statements is correct?

a. Businesses A, B, C, D, and E are all significant participation activities.

b. Businesses A, B, C, and D are all significant participation activities.

c. Janel is considered a material participant in Businesses A, B, C, and D.

d. Both *b* and *c* are correct.

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LO 13-2 27. Samuel is a CPA and earns $150,000 from his practice in the current year. He also has an ownership interest in three passive activities. Assume he is sufficiently at risk in each of the three partnerships. In the current tax year, the activities had the following income and losses:

Partnership A	$40,000
Partnership B	(32,000)
Partnership C	(24,000)

What is Samuel's AGI for the current year?

a. $134,000.

b. $144,000.

c. $150,000.

d. $190,000.

LO 13-2 28. Nathaniel has AGI (before any rental loss) of $65,000. He also owns several rental properties in which he actively participates. The rental properties produced a $30,000 loss in the current year. Nathaniel also has $5,000 of income from a limited partnership interest. How much, if any, of the rental loss can he deduct in the current year?

a. $0.

b. $5,000.

c. $25,000.

d. $30,000.

LO 13-2 29. Basil has $130,000 AGI (before any rental loss). He also owns several rental properties in which he actively participates. The rental properties produced a $30,000 loss in the current year. How much, if any, of the rental loss can Basil deduct in the current year?

a. $0.

b. $10,000.

c. $15,000.

d. $25,000.

LO 13-2 30. Raymond sells his entire interest in a rental property in which he actively participated at a gain of $18,000. The activity has a current year loss of $5,500 and $18,500 in prior year suspended losses. During the year, Raymond has $55,000 in salary. What is Raymond's AGI for the year?

a. $49,000.

b. $55,000.

c. $67,500.

d. $73,000.

LO 13-4 31. Jacob is single with no dependents. During 2017 he has $48,000 of taxable income. He also has $28,000 of positive AMT adjustments and $12,000 of tax preferences. Jacob does not itemize his deductions but takes the

standard deduction. Calculate his AMTI.

a. $88,000.

b. $92,050.

c. $94,350.

d. $98,400.

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32. Which of the following itemized deductions is *not* allowed for AMT?

LO 13-4

a. Medical expenses.

b. Taxes.

c. Charitable contributions.

d. Interest on loan to purchase principal residence.

33. Which of the following statements is correct with regard to the medical expense deduction?

LO 13-4

a. Medical expenses are not deductible for AMT.

b. The medical expense deduction is decreased for AMT.

c. The medical expense deduction is increased for AMT.

d. The same amount of medical expenses that is deductible for regular tax purposes is deductible for AMT for most taxpayers.

34. Paul reported the following itemized deductions on his 2017 tax return. His AGI for 2017 was $65,000. The mortgage interest is all qualified mortgage interest to purchase his personal residence. For AMT, compute his total adjustment for itemized deductions.

LO 13-4

Medical expenses (after the 10.0% of AGI floor)	$ 6,000
State income taxes	3,600
Home mortgage interest	11,500
Charitable contributions	3,200
Miscellaneous itemized deductions (after the 2% of AGI floor)	1,800

a. $1,800.

b. $3,600.

c. $5,400.

d. $20,100.

35. After computing all tax preferences and AMT adjustments, Phillip and his

LO 13-4 wife Carmin have AMTI of $210,000. If Phillip and Carmin file a joint tax return, what exemption amount can they claim for AMT for 2017?

a. $0.

b. $54,300.

c. $72,225.

d. $84,500.

Problems

All applicable problems are available with ***Connect***©

LO 13-1 36. In 2017, Andrew contributed equipment with an adjusted basis of $20,000 and an FMV of $18,000 to Construction Limited Partnership (CLP) in return for a 3% limited partnership interest. Andrew's shares of CLP income and losses for the year were as follows:

Interest	$ 500
Dividends	300
Capital gains	900
Ordinary loss	(4,325)

CLP had no liabilities. What are Andrew's initial basis, allowed losses, and ending at-risk amount?

LO 13-1 37. Cindy, Casey, and Kara each invested $30,000 in a real estate venture. The partnership borrowed $200,000 and purchased a warehouse for $290,000. The note was secured by the building; there was no personal recourse against the partners. What is each partner's beginning at-risk amount in the venture?

LO 13-2 38. During the current year, Joshua worked 1,300 hours as a tax consultant and 450 hours as a real estate agent. His one other employee (his wife) worked 300 hours in the real estate business. Joshua earned $50,000 as a tax consultant, and together the couple lost $20,000 in the real estate business. How should Joshua treat the loss on his federal income tax return?

LO 13-2 39. Donald has two investments in activities that are considered nonrental passive activities. He acquired Activity A six years ago, and it was profitable until the current year. He acquired Activity B in the current year. His share of the loss from Activity A in the current year is $15,000, and his share of the loss from Activity B is $4,000. What is the total of Donald's suspended losses from these activities as of the end of the current year?

LO 13-2 40. Darrell acquired an activity eight years ago. The loss from it in the current year was $65,000. The activity involves residential rental real estate in which he is an active participant. Calculate Darrell's AGI after considering that Darrell's AGI was $100,000 before including any potential loss.

LO 13-2 41. Evelyn has rental income of $48,000 and passive income of $18,000. She also has $148,000 of losses from a real estate rental activity in which she actively participates. Evelyn's AGI is $95,000 before considering this activity. How much rental loss can she deduct against other income

sources without regard to the at-risk rules?

LO 13-2 42. Christine died owning an interest in a passive activity property. The property had an adjusted basis of $210,000, a fair market value of $224,000, and suspended losses of $21,000. What can be deducted on her final income tax return?

LO 13-2 43. Judy acquired passive Activity A in January 2012 and Activity B in July 2013. Until 2017 Activity A was profitable. Activity A produced a loss of $50,000 in 2017 and a loss of $75,000 in 2018. She has $45,000 passive income from Activity B in 2017 and $35,000 in 2018. After offsetting passive income, how much of the net losses may she deduct?

LO 13-2 44. This year Robert had the following income and losses from four passive activities:

Activity 1	$(20,000)
Activity 2	(10,000)
Activity 3	(5,000)
Activity 4	33,000

Activity 4 had $10,000 of passive losses that are carried over from a prior year.

Robert also had wages of $110,000.

a. How much income or loss does Robert have from the four activities?

b. How are the suspended PALs allocated?

c. If Activity 1 were sold at an $18,000 gain, what would be the total income or loss from the four activities?

LO 13-2 45. Lucy has AGI of $120,000 before considering losses from some rental real estate she owns (she actively participates). She had the following losses from her rental property:

Rental property 1	$(22,000)
Rental property 2	(5,000)

a. How much of the losses can Lucy deduct?

b. If Lucy's AGI before the losses was $90,000, how much of the losses can she deduct?

page 13-43

LO 13-2 46. Julia acquired passive Activity A in January 2013 and passive Activity B in July 2015. Until 2016 Activity A was profitable. Activity A produced a loss of $150,000 in 2016 and a loss of $150,000 in 2017. She had passive income from Activity B of $50,000 in 2016 and $35,000 in 2017. How much of the net passive losses may she deduct in 2016 and 2017, respectively? (Ignore at-risk rules.)

LO 13-3 47. Jackson invested $190,000 in a passive activity five years ago. On January 1, 2015, his at-risk amount in the activity was $45,000. His shares of the income and losses in the activity were $52,000 loss in 2015, $20,000 loss in 2016, and $80,000 gain in 2017. How much can Jackson deduct in 2015 and 2016? What is his taxable income from the activity in 2017? Keep in mind the at-risk rules as well as the passive loss rules.

LO 13-3 48. Hunter has a $38,000 loss from an investment in a partnership in which he does not participate. His basis in the interest is $35,000.

a. How much of the loss is disallowed by the at-risk rules?

b. How much of the loss is disallowed by the passive loss rules?

page 13-44

LO 13-3 49. Reva gave her daughter a passive activity last year that had an adjusted basis of $75,000. The activity had suspended losses of $35,000 and a fair market value of $120,000. In the current year, her daughter realized income of $18,000 from the passive activity. What is the tax effect on Reva and her daughter last year and in the current year?

LO 13-4 50. In 2015, Jerry acquired an interest in a partnership in which he is not a material participant. The partnership was profitable until 2016. Jerry's basis in the partnership interest at the beginning of 2016 was $55,000. In 2016, his share of the partnership loss was $40,000. In 2017, his share of the partnership income was $18,000. How much can Jerry deduct in 2016 and 2017?

LO 13-4 51. Benny sells an apartment building. His adjusted basis for regular income tax purposes is $450,000, and it is $475,000 for AMT purposes. He receives $700,000 from the sale.

a. Calculate Benny's gain for regular income tax purposes.

b. Calculate Benny's gain for AMT purposes.

c. Calculate any applicable AMT adjustment.

LO 13-4 52. Carson had the following itemized deductions in 2017:

State income taxes	$ 1,500

Charitable contributions	9,900
Mortgage interest (personal residence)	12,000
Medical expenses ($8,000 − [10.0% × $75,000])	500
Miscellaneous ($2,200 − [2% × $75,000])	700

a. What are Carson's itemized deductions for AMT purposes?

b. What is the amount of the AMT adjustment?

page 13-45

53. William is not married, nor does he have any dependents. He does not itemize deductions. His taxable income for 2017 was $87,000. His AMT adjustments totaled $125,000. What is William's AMT for 2017? (*Hint:* Don't forget the personal exemption.)

LO 13-4

54. Herbie is the owner of two apartment buildings. Following is information related to the two buildings:

LO 13-4

	Date Acquired	Total Cost	Cost Allocated to Land
Building A	3/15/97	$300,000	$40,000
Building B	8/31/04	600,000	95,000

Herbie elected the maximum depreciation available for each asset. What is the effect of depreciation on AMTI for 2017?

55. Clay Company uses the completed contract method on a contract that requires 14 months to complete. The contract is for $750,000 and has estimated costs of $425,000. At the end of 2017, $210,000 of the costs had been incurred. The contract is completed on schedule; however, total costs equal $435,000. What is the amount of AMT adjustments for 2017 and 2018?

LO 13-4

56. Arnold exercised an incentive stock option in 2014, acquiring 1,500 shares of stock at an option price of $80 per share. The FMV of the stock at the date of exercise was $110 per share. In 2016, the rights became freely transferable and were not subject to a substantial risk of forfeiture. Arnold sells the shares in 2017 for $165 per share. How do these transactions affect his AMTI in 2014, 2016, and 2017?

LO 13-4

57. Barbara is single and owns a home in the city, which is her primary residence. She also owns a cottage at the beach, which she treats as a vacation home. In April 2017, she borrowed $50,000 on a home equity loan and used the proceeds to pay off credit card obligations and other debt. She paid the following in 2017:

LO 13-4

Mortgage interest (personal residence)	$15,000

Mortgage interest (cottage)	8,000
Interest on the home equity loan	5,000
Interest on credit card	2,500

Calculate any AMT adjustment concerning interest in 2017.

Tax Return Problems

All applicable tax return problems are available with ***Connect***©

Use your tax software to complete the following problems. If you are manually preparing the tax returns, the problem indicates the forms or schedules you will need.

Tax Return Problem 1

Kia Lopez (SSN 412-34-5670) resides at 101 Poker Street, Apt. 12A, Hickory, FL 34714. Her W-2 shows the following:

Wages	$56,500
Federal withholding	6,100
Social security wages	56,500
Social security withholding	3,503
Medicare withholding	819
State withholding	–0–

In 2017, Kia contributed cash of $7,000 to Apartment Rentals Limited Partnership (ARLP) in return for a 13% limited partnership interest. She is an active participant. Kia's shares of ARLP income and losses for the year per her K-1 were as follows:

Interest	$ 35
Dividends (qualified)	290
Capital gains (long-term)	700
Rental loss	(8,300)

ARLP had no liabilities. Kia does not itemize and has no other investments or passive activities.

Prepare Form 1040 for Kia Lopez for 2017. The taxpayer had qualifying health care coverage at all times during the tax year. You will need Form 1040, Schedule E (page 2), Form 6198, and Form 8582.

Tax Return Problem 2

Kurt and Ashley Tallo (SSNs 412-34-5670 and 412-34-5671) reside at 1901 Princess Ave., Park City, UT 84060. Kurt does not work outside the home. Ashley's W-2 shows the following:

Wages	$340,000
Federal withholding	76,800
Social security wages	127,200
Social security withholding	7,886
Medicare withholding	5,740
State withholding	23,800

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The Tallos also have the following:

Mortgage interest	$12,600
Charitable contributions	10,000

Kurt and Ashley have four passive activities. They received K-1s from four partnerships with the following income or loss on line 1. They are at-risk in each activity, so the passive loss rules are the only obstacle.

Activity 1	$(40,000)
Activity 2	(20,000)
Activity 3	(10,000)

Activity 4	63,000

Prepare Form 1040 for the Tallos for 2017. The taxpayers had qualifying health care coverage at all times during the tax year. You will need Form 1040, Schedule A, Schedule E (page 2), Form 6251, and Form 8582. Do not compute the underpayment penalty, if any.

Tax Return Problem 3

Nathan is married with two children and has AGI of $405,000. He also has the following AMT adjustments and preferences:

a. Itemized deductions:

Itemized Deduction	Regular Tax	AMT Deduction	AMT Adjustment
Medical after floor	$ 5,375		
Taxes	34,354		
Mortgage interest	14,900		
Charitable contributions	18,000		
Miscellaneous deductions after floor	540		

b. Depreciation of a rental property purchased in August 2007 for $210,000.

c. Depreciation on personal property:

Asset	Date Purchased	Cost	MACRS Life/ AMT	MACRS Depreciation	AMT Depreciation	Adjustment
Computer 1	02/12/13	$ 2,900				
Furniture 1	02/12/13	12,000				

d. Incentive stock option: Nathan exercises options to purchase 1,000 shares at $19 per share when the market value is $26.

Prepare Form 6251 for the calculation of AMT. The regular tax is $79,375.[36]

We have provided selected filled-in source documents that are available in *Connect.*

[1] A *nonrecourse* debt is one for which no one is personally liable. The notions of recourse, nonrecourse, and qualified nonrecourse are discussed in greater detail later in the chapter. Financial institutions rarely lend money for which no security is pledged or no individual is personally liable. The availability of nonrecourse financing is the primary reason that the at-risk rules were ineffective in limiting abusive tax shelters, thus leading to the passage of the PAL rules.

[2] IRC § 465(c).

[3] IRC § 465(b)(1)(A)&(B).

[4] Proposed Regulation § 1.465-39(a). Proposed Regulations are weak authority until they become permanent.

However, in this case, the inclusion of increase/decrease items is common and has been treated similarly in practice for numerous years.

[5] Some tax practitioners prefer to say that the at-risk amount is a negative $2,077. However, tax basis can never go below zero. It is true that tax basis and the at-risk amount may or may not be the same. When liabilities are ignored in the at-risk calculation (which often occurs in practice unless they are needed to deduct a loss), the at-risk amount and the tax basis are identical. In this text, we refer to the situation in Example 13-3 as zero at-risk with a disallowed loss.

[6] IRC § 465(b)(2).

[7] IRC § 465(b)(3)(A)(B)(C).

[8] IRC § 465(b)(6).

[9] IRC § 465(b)(6)(B).

[10] IRC § 465(b)(6)(E)(ii) specifically excludes holding of mineral property from the definition of holding real property.

[11] A *qualified person* is any person who is actively and regularly engaged in the business of lending money and who is not a related party to the taxpayer or the person from whom the taxpayer acquired the property. Any financial institution qualifies as a qualified person assuming there is no owner relationship with the taxpayer.

[12] IRC § 469(h).

[13] IRS Reg. § 1.469-5(a).

[14] IRC § 469(a)(2). In this text, the focus is exclusively on the individual taxpayer. However, these same PAL rules also apply to the other entity types.

[15] IRC § 469(e).

[16] The sale of an asset (such as a piece of equipment) used in the passive activity would be considered passive. This does not include gains on investment property (that is, capital gains or losses).

[17] IRC § 469(c)(7)(B).

[18] Reg. § 1.469-1(e)(3).

[19] The $25,000 amount becomes $12,500 for married taxpayers who file separate returns and do not live together at any time during the tax year.

[20] IRC § 469(g).

[21] IRC § 469(j)(6)(A).

[22] IRC § 469(g)(2)(A).

[23] Senate Report No. 99-313 (P.L. 99-514), 1986-3 CB (Part 3), p. 518. The Senate Report accompanied the Tax Reform Act of 1986.

[24] The format on Form 6251 is somewhat different, but the calculation is the same.

[25] A positive adjustment increases AMTI, and a negative adjustment decreases AMTI. Thus a negative adjustment is good for the taxpayer.

[26] IRC § 56.

[27] IRC § 56(b)(1)(E).

[28] IRC § 56(b)(1)(A).

[29] A negative AMT adjustment reduces the AMT income subject to tax. Recall that tax refunds are included in income only if the taxpayer deducted the taxes in a prior year.

[30] For assets placed in service prior to 1986, the difference in depreciation is called *a tax preference item* rather than an *adjustment* and thus is discussed in the preference section. Also, nonresidential real property purchased between December 31, 1986, and May 13, 1993, has a depreciable life of 31.5 years.

[31] Recall that because the half-year convention is used for most assets, the depreciation calculation goes into the eighth year for seven-year assets.

[32] The regular depreciation percentages are found in the appendix of Chapter 6, Table 6A-1. For MACRS depreciation of personal property, the percentages are also found in Table 1 of Rev. Proc. 87-57.

[33] IRC § 56(b)(3).

[34] IRC § 57(a)(7).

[35] IRC § 57(a).

[36] This regular tax number may vary slightly if software is used to complete this problem. This number was calculated using the tax rate schedules published prior to software and tax table publication dates.

Chapter Fourteen

Partnership Taxation

In this chapter, we discuss taxation of partnerships. As noted earlier in this text, the partnership itself does not pay income tax. However, a partnership must annually report each partner's share of its income or loss and other items on a Schedule K-1. This chapter presents the tax consequences of the partnership entity from formation to liquidation. We also examine Form 1065, the annual information tax return filed by partnerships.

Learning Objectives

When you have completed this chapter, you should understand the following learning objectives (LO):

LO 14-1 Explain the rules dealing with the formation of a partnership.

LO 14-2 Be able to report partnership ordinary income or loss.

LO 14-3 Determine separately stated items.

LO 14-4 Calculate partner basis.

LO 14-5 Apply the rules for partnership distributions.

LO 14-6 Correctly report partnership liquidations and dispositions.

INTRODUCTION

Taxpayers are increasingly using the partnership organizational form for

tax purposes. The partnership form allows substantial flexibility in terms of contributions and distributions. A partnership is subject to tax only at the partner level. In contrast to a corporation that pays a corporate tax, and then the individual shareholder is subject to tax on the dividends (double taxation), a partnership's income flows through to its partners, and the partnership pays no income tax at the entity level.

A historic disadvantage of a general partnership has been a lack of limited liability; all general partners were individually liable for partnership actions and liabilities. With the increasing availability of limited liability companies (LLCs), limited liability partnerships (LLPs), and limited partnerships (LPs), all of which are taxed as partnerships for federal purposes and which also limit the liability of at least some partners, this disadvantage has been eliminated. The discussions in this chapter encompass each of these organizational forms under the generic term *partnerships.*

FORMATION OF A PARTNERSHIP
LO 14-1

Generally a partner recognizes no gain or loss on the formation of a partnership.[1] The most common way to form a partnership is for two or more partners (individuals or entities) to contribute cash, property, or services in exchange for a partnership interest.

page 14-2

EXAMPLE 14-1

Jason and Spence form a partnership to perform lawn care and landscaping. Each contributes $25,000 and receives a 50% interest in J&S Landscaping. No gain or loss is recognized in this transaction.

Beginning Partner Basis

The concept of *basis* is extremely important when dealing with partnerships. A partnership has two types of tax basis. One is the *outside basis,* which is the basis of the partnership interest in the hands of the partner. The second type is *inside basis,* the partner's share of the basis of

the individual assets in the partnership.

When a partner contributes property to a partnership, the basis of the property carries over to the partnership (inside basis), and the partner's basis increases by the basis of the property contributed (outside basis).[2] This concept is known as *basis-in, basis-out.*

EXAMPLE 14-2

Bart and Alan form an LLC to construct personal residences. Each is a 50% partner in sharing income and loss items. Bart contributes the following assets to the partnership:

	Basis	FMV
Undeveloped land	$55,000	$100,000
Equipment	35,000	50,000
Total	$90,000	$150,000

Alan contributes the following assets to the partnership:

Cash	$ 90,000	$ 90,000
Office equipment	30,000	40,000
Truck	5,000	20,000
Total	$125,000	$150,000

Bart's outside basis in his partnership interest is $90,000, the sum of the contributed assets' basis. Alan's outside basis in his partnership interest is $125,000, the sum of his contributed assets' basis.

In Example 14-2, Bart's partnership basis is only $90,000 while Alan's basis is $125,000, yet both own a 50% interest in the partnership. This happens because Bart's contributed assets had higher unrecognized gains. If Bart were to sell his partnership interest for its fair market value of $150,000, he would recognize a $60,000 gain—the same gain he deferred upon contributing the assets to the partnership.

In summary, a partner's basis in his or her partnership interest (outside basis) is the sum of any money contributed plus the adjusted basis of property contributed.

TAX YOUR BRAIN

Dave and Alisa form a law partnership. Dave gave $100,000 cash to the partnership, and Alisa gave $100,000 of unrealized accounts receivable from her cash basis sole proprietorship. What is the basis of the partnership interest for each partner?

ANSWER

Dave has a partnership basis of $100,000. Alisa, on the other hand, has a zero basis in her partnership interest. Even though she gave something of value for a 50% interest in the partnership, her basis is zero because the accounts receivable have a zero basis due to the fact that her sole proprietorship uses the cash basis of accounting. As these receivables are collected, Alisa's partnership basis will increase.

Partnership Basis

The term *basis-in, basis-out* also applies to the partnership. The assets contributed to the partnership must have a tax basis for various purposes (such as depreciation or gain/loss determination). The partnership "steps into the shoes" of the partner. In other words, the basis in the hands of the partnership is the same as the basis in the hands of the partner (that is, the partner's basis carries over to the partnership).[3]

In the following example, we introduce a *tax basis balance sheet*. Thus far, in your accounting education, you probably have never been exposed to any method of accounting other than that following generally accepted accounting principles (GAAP). In practice, many small partnerships and other entities keep their books on the tax basis to eliminate the need and cost of keeping two sets of books, one for taxes and one for GAAP.

EXAMPLE 14-3

Assume the same facts as in Example 14-2. The basis of the contributed assets from Bart and Alan carries over to the partnership. Following is the tax basis balance sheet for the partnership:

Cash	$ 90,000		
Equipment	35,000		
Office equipment	30,000		
Truck	5,000	Capital, Bart	$ 90,000
Undeveloped land	55,000	Capital, Alan	125,000
Total assets	$215,000	Total capital	$215,000

For depreciable assets, the partnership assumes the depreciation schedule of the partner at the point of contribution. For example, if a partner is in the third year of depreciation for an asset and contributes that asset to the partnership, the partnership starts depreciating it in the third year. If a personal-use asset is contributed to a partnership for business use, the partnership's basis in the asset is the lower of the partner's cost or the FMV of the asset on the date contributed.

EXAMPLE 14-4

Jose contributed a piece of equipment to JWS Partnership on March 1, 2017. The cost of the equipment was $20,000, and year 2017 was the third year of depreciation under seven-year MACRS. The depreciation for the equipment for 2017 would be calculated as follows:

Jose's Schedule C		**Depreciation Expense**
2015		$2,858
2016		4,898
2017	(20,000 × 0.1749 × 2/12)	583

JWS Partnership		**Depreciation Expense**
2017	(20,000 × 0.1749 × 10/12)	$2,915

Jose deducts two months of depreciation ($583) in 2017 on his Schedule C, and JWS Partnership deducts the other 10 months of 2017 depreciation ($2,915) on its Form 1065.

EXAMPLE 6-29

Jose also contributed a truck to JWS Partnership that he had used personally for four years. The truck cost $28,000 four years ago; its current fair market value is $8,300. The basis to the partnership is $8,300, and depreciation would start for a five-year MACRS asset.

Holding Periods

Chapter 7 discussed the importance of holding periods for § 1231 assets and capital assets. A partnership interest is a capital asset to the partner. Likewise, partners are likely to contribute capital assets, § 1231 assets, and ordinary assets (such as inventory) when forming partnerships. As a general rule, the holding period of the partnership interest includes the partner's holding period for the § 1231 assets and capital assets contributed.[4] If ordinary assets are contributed (such as inventory or accounts receivable), the holding period of the partnership interest begins on the date of the transfer.[5]

The same holding period concept holds true for the partnership. The partnership holding period for the individual assets includes the contributing partner's holding period for § 1231 and capital assets.

EXAMPLE 14-6

Casey contributed the following business assets to CWS Partnership on June 5, 2017:

	Basis	FMV	Date Purchased by Casey
Building	$175,000	$300,000	07/01/09
Inventory	50,000	100,000	05/08/14

The building is a § 1231 asset and has a $175,000 basis to CWS. The building has a long-term holding period to the partnership. Because the inventory is an ordinary asset, its basis is $50,000 with a short-term holding period.[6]

Contribution of Services

Nonrecognition of gain does not apply when a partner receives a partnership interest in exchange for services. When forming a partnership,

one or more partners frequently invest capital and other partners perform services in exchange for a partnership interest. A partner providing services recognizes income to the extent of the fair market value of his or her partnership interest.[7]

EXAMPLE 14-7

Russell, Kevin, and David form a partnership. Russell and Kevin are wealthy investors; David is an expert construction contractor. Russell contributes a 20-acre parcel of land, and Kevin contributes cash. David agrees to perform all of the work to develop the land into a high-end subdivision.

	Basis	FMV	Partnership Percentage
Russell's land	$200,000	$300,000	30%
Kevin's cash	300,000	300,000	30
David's services	–0–	–0–	40

David must recognize $240,000 of income in the tax year of formation ($600,000 FMV of assets × 40% partnership interest). In essence, Russell and Kevin are paying David for his future services.

Example 14-7 is a drastic example that shows how an unknowing service partner may be burdened with a high unexpected tax liability without cash available to pay the bill.

Contributed Property with Liabilities

Complexities arise when a partnership assumes a partner's liability. A partner who is released of a liability is treated as receiving money from the partnership, which reduces his or her partnership basis. If other partners assume a portion of the liability, they are treated as making a money contribution that increases their partnership basis.[8]

EXAMPLE 14-8

Angie contributes an office building to a newly formed partnership for a 25% interest. The building has a $300,000 FMV and a $160,000 basis and is subject to a $100,000 mortgage. The partnership assumes the mortgage.

Each of the other three partners contributes $200,000 cash. The partners calculate their basis as follows:

	Angie	Cherie	Bess	Kiley
Beginning basis	$160,000	$200,000	$200,000	$200,000
Plus: Share of liability ($100,000 x 25%)	25,000	25,000	25,000	25,000
Less: Release of liability	(100,000)	–0–	–0–	–0–
Partner basis	$ 85,000	$225,000	$225,000	$225,000

An important point to note is that a partner's basis can never go below zero. If the release of liability causes the basis to become negative, the contributing partner must recognize a gain.[9]

EXAMPLE 14-9

Assume the same facts as in Example 14-8 except that the basis of the office building is $45,000. Angie's basis would change as follows:

Beginning basis	$ 45,000
Plus: Share of liability	25,000
Less: Liability release	(100,000)
Liability in excess of basis	(30,000)
Gain recognized by Angie	30,000
Partnership basis	$ –0–

The gain recognized causes the negative basis to return to zero.

In summary, the only time a partner recognizes a gain on partnership formation is upon contributing services or when the partnership assumes a partner's liability in excess of basis.

CONCEPT CHECK 14-1—LO 14-1

1. Generally a partner does not recognize a gain on the formation of a partnership. True or false?

2. Typically the basis of the assets contributed to a partnership is the same in the hands of the partnership as it was in the hands of the contributing partner. True or false?
3. If two taxpayers form a partnership and each has a 50% interest in it, each partner's outside basis must be equal. True or false?
4. A partner does not have to recognize a gain on the receipt of a partnership interest in exchange for services. True or false?
5. A partner who assumes an increased portion of the partnership debt is treated as making a cash contribution, and his or her basis in the partnership increases. True or false?

page 14-6

PARTNERSHIP ORDINARY INCOME OR LOSS

LO 14-2

Partnership income consists of two components: ordinary income or loss and separately stated items. Both flow through to the individual partners. *Ordinary income or loss* consists of all ordinary income and expense items; *separately stated items* are those that could affect individual partners differently at the partner level.

Ordinary Income or Loss

See Exhibit 14-1 for the five main pages of Form 1065, the annual informational tax return that every partnership must file. Each partnership calculates ordinary income or loss and reports the amount on page 1 of Form 1065. The tax rules used to calculate ordinary income are generally similar to those used by a Schedule C business. All ordinary income items are accumulated and reduced by ordinary and necessary expenses to derive net ordinary income or loss, shown on line 22 of Form 1065. Several partnership expense items require some additional discussion: guaranteed payments to partners, depreciation, and health insurance premiums.

Guaranteed Payments

Partners of a partnership are not employees of the partnership; thus they cannot receive a salary. Partners are owners of the partnership and are

considered self-employed individuals (or entities) that have merged together to run a business. *Guaranteed payments* are payments made to partners for services rendered. To qualify as a guaranteed payment, the payment must be calculated without regard to partnership income.[10]

EXAMPLE 14-10

Junius is a 20% partner in the DJ Real Estate partnership. He does substantial work for the partnership and receives $1,000 per month for his services. The $1,000 a month is a guaranteed payment and, as such, the partnership deducts it from ordinary income on line 10. He would include the $12,000 guaranteed payment on page 2 of his Form 1040, Schedule E.

EXAMPLE 14-11

Donna is an 80% partner in the DJ Real Estate partnership. She also works for the partnership and receives a monthly payment of 50% of the net income for the month. Because Donna's payment is calculated with regard to partnership income, it is not considered a guaranteed payment, and the partnership cannot take a deduction for the payment.

Guaranteed payments are the only items that are reported both as a deduction for ordinary income and as a separately stated item (discussed in the next section).

TAX YOUR BRAIN

Refer to Examples 14-10 and 14-11. How can Junius and Donna, partners in the same partnership, be treated differently? Donna is an 80% partner in the business but receives only 50% of the net income.

ANSWER

This is one of the benefits of the partnership form. Due to the flexibility of a partnership agreement, the partners can receive the returns of the business in any way they agree upon. In Examples 14-10 and 14-11, Junius may get a flat fee because he works a fixed number of hours in the office, whereas

Donna is the sales agent and makes her money based on the sales she makes. How Donna and Junius share the net income at the end of the year is based on their agreement, but in this example it is likely to be 80% to Donna and 20% to Junius. He, however, is guaranteed $12,000 per year no matter the partnership income or loss.

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Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2017, or tax year beginning , 2017, ending , 20

▶ Go to *www.irs.gov/Form1065* for instructions and the latest information.

OMB No. 1545-0123

2017

A Principal business activity	Type or Print	Name of partnership	D Employer identification number
B Principal product or service		Number, street, and room or suite no. If a P.O. box, see the instructions.	E Date business started
C Business code number		City or town, state or province, country, and ZIP or foreign postal code	F Total assets (see the instructions) $

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return
(6) ☐ Technical termination - also check (1) or (2)

H Check accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶

J Check if Schedules C and M-3 are attached . . . ☐

Caution. *Include* ***only*** *trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

Income	1a	Gross receipts or sales	1a		
	b	Returns and allowances	1b		
	c	Balance. Subtract line 1b from line 1a		1c	
	2	Cost of goods sold (attach Form 1125-A)		2	
	3	Gross profit. Subtract line 2 from line 1c		3	
	4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)		4	
	5	Net farm profit (loss) (attach Schedule F (Form 1040))		5	
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)		6	
	7	Other income (loss) (attach statement)		7	
	8	**Total income (loss).** Combine lines 3 through 7		8	
Deductions (see the instructions for limitations)	9	Salaries and wages (other than to partners) (less employment credits)		9	
	10	Guaranteed payments to partners		10	
	11	Repairs and maintenance		11	
	12	Bad debts		12	
	13	Rent		13	
	14	Taxes and licenses		14	
	15	Interest		15	
	16a	Depreciation (if required, attach Form 4562)	16a		
	b	Less depreciation reported on Form 1125-A and elsewhere on return	16b	16c	
	17	Depletion **(Do not deduct oil and gas depletion.)**		17	
	18	Retirement plans, etc.		18	
	19	Employee benefit programs		19	
	20	Other deductions (attach statement)		20	
	21	**Total deductions.** Add the amounts shown in the far right column for lines 9 through 20		21	
	22	**Ordinary business income (loss).** Subtract line 21 from line 8		22	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.

▶ Signature of partner or limited liability company member ▶ Date

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form **1065** (2017)

Form 1065 (2017) Page **2**

Schedule B **Other Information**

			Yes	No
1	What type of entity is filing this return? Check the applicable box:			
	a ☐ Domestic general partnership	b ☐ Domestic limited partnership		
	c ☐ Domestic limited liability company	d ☐ Domestic limited liability partnership		
	e ☐ Foreign partnership	f ☐ Other ▶		
2	At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person?			
3	At the end of the tax year:			
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership			
b	Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership			
4	At the end of the tax year, did the partnership:			
a	Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below			

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock

			Yes	No
b	Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below			

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Owned in Profit, Loss, or Capital

			Yes	No
5	Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details			
6	Does the partnership satisfy **all four** of the following conditions?			
a	The partnership's total receipts for the tax year were less than $250,000.			
b	The partnership's total assets at the end of the tax year were less than $1 million.			
c	Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.			
d	The partnership is not filing and is not required to file Schedule M-3. If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065, or Item L on Schedule K-1.			
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?			
8	During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt?			
9	Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction?			
10	At any time during calendar year 2017, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR). If "Yes," enter the name of the foreign country. ▶			

Form **1065** (2017)

Schedule B **Other Information *(continued)***

		Yes	No
11	At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions		
12a	Is the partnership making, or had it previously made (and not revoked), a section 754 election? See instructions for details regarding a section 754 election.		
b	Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		
c	Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		
13	Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly owned by the partnership throughout the tax year) ▶ ☐		
14	At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property?		
15	If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See instructions ▶		
16	Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership. ▶		
17	Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return. ▶		
18a	Did you make any payments in 2017 that would require you to file Form(s) 1099? See instructions		
b	If "Yes," did you or will you file required Form(s) 1099?		
19	Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return. ▶		
20	Enter the number of partners that are foreign governments under section 892. ▶		
21	During the partnership's tax year, did the partnership make any payments that would require it to file Form 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474)?		
22	Was the partnership a specified domestic entity required to file Form 8938 for the tax year (See the Instructions for Form 8938)?		

Designation of Tax Matters Partner (see instructions)
Enter below the general partner or member-manager designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶		Identifying number of TMP ▶	
If the TMP is an entity, name of TMP representative ▶		Phone number of TMP ▶	
Address of designated TMP ▶			

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Schedule K Partners' Distributive Share Items

Section	Line	Item		Total amount
Income (Loss)	1	Ordinary business income (loss) (page 1, line 22)	1	
	2	Net rental real estate income (loss) (attach Form 8825)	2	
	3a	Other gross rental income (loss) — 3a		
	b	Expenses from other rental activities (attach statement) — 3b		
	c	Other net rental income (loss). Subtract line 3b from line 3a	3c	
	4	Guaranteed payments	4	
	5	Interest income	5	
	6	Dividends: a Ordinary dividends	6a	
		b Qualified dividends — 6b		
	7	Royalties	7	
	8	Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8	
	9a	Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a	
	b	Collectibles (28%) gain (loss) — 9b		
	c	Unrecaptured section 1250 gain (attach statement) — 9c		
	10	Net section 1231 gain (loss) (attach Form 4797)	10	
	11	Other income (loss) (see instructions) Type ▶	11	
Deductions	12	Section 179 deduction (attach Form 4562)	12	
	13a	Contributions	13a	
	b	Investment interest expense	13b	
	c	Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13c(2)	
	d	Other deductions (see instructions) Type ▶	13d	
Self-Employment	14a	Net earnings (loss) from self-employment	14a	
	b	Gross farming or fishing income	14b	
	c	Gross nonfarm income	14c	
Credits	15a	Low-income housing credit (section 42(j)(5))	15a	
	b	Low-income housing credit (other)	15b	
	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	15c	
	d	Other rental real estate credits (see instructions) Type ▶	15d	
	e	Other rental credits (see instructions) Type ▶	15e	
	f	Other credits (see instructions) Type ▶	15f	
Foreign Transactions	16a	Name of country or U.S. possession ▶		
	b	Gross income from all sources	16b	
	c	Gross income sourced at partner level	16c	
		Foreign gross income sourced at partnership level		
	d	Passive category ▶ e General category ▶ f Other ▶	16f	
		Deductions allocated and apportioned at partner level		
	g	Interest expense ▶ h Other ▶	16h	
		Deductions allocated and apportioned at partnership level to foreign source income		
	i	Passive category ▶ j General category ▶ k Other ▶	16k	
	l	Total foreign taxes (check one): ▶ Paid ☐ Accrued ☐	16l	
	m	Reduction in taxes available for credit (attach statement)	16m	
	n	Other foreign tax information (attach statement)		
Alternative Minimum Tax (AMT) Items	17a	Post-1986 depreciation adjustment	17a	
	b	Adjusted gain or loss	17b	
	c	Depletion (other than oil and gas)	17c	
	d	Oil, gas, and geothermal properties—gross income	17d	
	e	Oil, gas, and geothermal properties—deductions	17e	
	f	Other AMT items (attach statement)	17f	
Other Information	18a	Tax-exempt interest income	18a	
	b	Other tax-exempt income	18b	
	c	Nondeductible expenses	18c	
	19a	Distributions of cash and marketable securities	19a	
	b	Distributions of other property	19b	
	20a	Investment income	20a	
	b	Investment expenses	20b	
	c	Other items and amounts (attach statement)		

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Form 1065 (2017) Page **5**

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l	1	

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt Organization	(vi) Nominee/Other
a General partners						
b Limited partners						

Schedule L Balance Sheets per Books

Assets	Beginning of tax year (a)	(b)	End of tax year (c)	(d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets (attach statement)				
7a Loans to partners (or persons related to partners)				
b Mortgage and real estate loans				
8 Other investments (attach statement)				
9a Buildings and other depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets (attach statement)				
14 Total assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities (attach statement)				
18 All nonrecourse loans				
19a Loans from partners (or persons related to partners)				
b Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities (attach statement)				
21 Partners' capital accounts				
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Note. The partnership may be required to file Schedule M-3 (see instructions).

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
2 Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):		a Tax-exempt interest $	
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize):	
4 Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize):		a Depreciation $	
a Depreciation $		8 Add lines 6 and 7	
b Travel and entertainment $		9 Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	
5 Add lines 1 through 4			

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year		6 Distributions: a Cash	
2 Capital contributed: a Cash		b Property	
b Property		7 Other decreases (itemize):	
3 Net income (loss) per books			
4 Other increases (itemize):		8 Add lines 6 and 7	
5 Add lines 1 through 4		9 Balance at end of year. Subtract line 8 from line 5	

Form **1065** (2017)

EXHIBIT 14-1

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1065. Washington, DC: 2017.

page 14-12

Depreciation

A partnership calculates depreciation following the same rules as a sole proprietorship using Schedule C. Form 4562 must be completed and attached. One major exception concerns the § 179 expense deduction. A partnership can use the § 179 expense deduction, but the deduction cannot reduce the partnership ordinary income. § 179 expense must be reported separately to each partner.

TAX YOUR BRAIN

Why must § 179 expense be reported separately to each partner?

ANSWER

If you recall from Chapter 6, each individual is allowed to deduct a maximum of $510,000 of § 179 expense in tax year 2017. If the partnership deducts the § 179 expense and does not separately state it to partners, an individual could set up numerous partnerships for his or her businesses and, effectively, have an unlimited § 179 expense (up to $510,000 for each partnership).

Partner Health Premiums

Most employees can exclude from income the cost of employer-provided health and accident insurance. For employees of a partnership, this is certainly the case. However, because partners are not employees, partners cannot exclude from income the cost of their health insurance premiums paid by the partnership. The partnership treats the premiums as guaranteed payments to the partner, and the partner can deduct the premiums as a *for* AGI deduction on Form 1040.

CONCEPT CHECK 14-2—LO 14-2

1. A partnership can deduct which of the following in determining partnership ordinary income or loss?

a. All ordinary and necessary expenses.

b. Guaranteed payments.

c. Depreciation.

d. All of the above.

2. What tax form is a partnership required to file each year?

a. Form 1120.

b. Form 1040.

c. Form 1065.

d. Form 1120S.

3. A payment made to a partner that is calculated without regard to partnership income is a

a. Partner salary.

b. Partner withdrawal.

c. Loan to a partner.

d. Guaranteed payment.

SEPARATELY STATED ITEMS
LO 14-3

As noted earlier, a partnership must allocate income and expense items between ordinary items and separately stated items. The general rule regarding income and expense items of a partnership and their classification follows:

> All income and expense items of a partnership that may be treated differently at the partner level must be separately stated.

page 14-13

TABLE 14-1 Common Partnership Ordinary and Separately Stated Items

Ordinary Items (page 1, Form 1065)	Separately Stated Items (Schedule K, page 4, Form 1065)
Gross profit	Net income from rental real estate

Ordinary income from Form 4797	Net income from other rentals
Salary and wages (nonpartners)	Interest income
Guaranteed payments (partners)	Guaranteed payments (partners)
Repairs and maintenance	Dividends
Bad debts	Royalty income
Rent	Capital gains and losses
Taxes and licenses	§ 1231 gains and losses
Interest	Charitable contributions
Depreciation	§ 179 expense
Retirement plans	Tax credits
Employee benefits	AMT adjustments and preferences
Other ordinary and necessary expenses	

Table 14-1 lists the most common ordinary items and separately stated items.

Form 1065, Schedule K (page 4), lists the partners' shares of income, credits, and deductions. Schedule K is the total for all partners, whereas Schedule K-1 (discussed later) provides the individual partner's share of each item.

TAX YOUR BRAIN

Why are items such as rental loss or capital gains separately stated?

ANSWER

Rental losses are passive activities. One partner may have rental income or other passive income to offset the losses whereas another partner may not. Thus the rental loss from the partnership could be treated differently from partner to partner. Likewise, an individual partner receives preferential tax treatment for capital gains. A corporate partner, in the same partnership, receives no preferential treatment and can deduct capital losses only to the extent of capital gains. Again, the different tax treatment at the partner level mandates that these items be separately reported to the partners.

Allocations to Partners (Schedule K-1)

Every year, each partner in a partnership must receive a Schedule K-1 (shown in Exhibit 14-2), which reports the partner's share of ordinary income or loss and each separately stated item. Section J of the K-1 shows the partner's percentage share of profit, loss, and ownership. Notice that the line items on the K-1 correspond directly to the line items on Schedule K of Form 1065. The summation (line 1, for example) of all the K-1s, whether for 2 or 5,000 partners, should equal the total on Schedule K. In the majority of cases, the allocation to the partner is the year-end percentage multiplied by the total amount for each item on Schedule K (page 4 of Form 1065).[11] This calculation differs if changes in ownership occurred during the year or special allocations are made between the partners.

page 14-14

651117

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0123

Schedule K-1 (Form 1065) **2017**

Department of the Treasury
Internal Revenue Service

For calendar year 2017, or tax year

beginning / / 2017 ending / /

Partner's Share of Income, Deductions, Credits, etc. ▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
22-7892345

B Partnership's name, address, city, state, and ZIP code
W&J Woodworking
2155 Playground Ave
Kinston, NC 23849

C IRS Center where partnership filed return
Cincinnati, OH

D ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
412-34-5670

F Partner's name, address, city, state, and ZIP code
Luleng Wu
118 Nail Road
Kinston, NC 23849

G ☒ General partner or LLC member-manager ☐ Limited partner or other LLC member

H ☒ Domestic partner ☐ Foreign partner

I1 What type of entity is this partner? Individual

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here ☐

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	40 %
Loss	%	40 %
Capital	%	40 %

K Partner's share of liabilities at year end:

Nonrecourse	$
Qualified nonrecourse financing	$ 26,300
Recourse	$ 43,000

L Partner's capital account analysis:

Beginning capital account	$ 116,900
Capital contributed during the year	$
Current year increase (decrease)	$ 76,000
Withdrawals & distributions	$ (20,000)
Ending capital account	$ 172,900

☒ Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

M Did the partner contribute property with a built-in gain or loss?
☐ Yes ☒ No
If "Yes," attach statement (see instructions)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	60,540
2	Net rental real estate income (loss)	
3	Other net rental income (loss)	
4	Guaranteed payments	42,000
5	Interest income	
6a	Ordinary dividends	1,110
6b	Qualified dividends	1,110
7	Royalties	
8	Net short-term capital gain (loss)	440
9a	Net long-term capital gain (loss)	600
9b	Collectibles (28%) gain (loss)	
9c	Unrecaptured section 1250 gain	
10	Net section 1231 gain (loss)	105
11	Other income (loss)	A 2,600
12	Section 179 deduction	
13	Other deductions	
14	Self-employment earnings (loss)	A 91,940
15	Credits	
16	Foreign transactions	
17	Alternative minimum tax (AMT) items	
18	Tax-exempt income and nondeductible expenses	
19	Distributions	
20	Other information	

*See attached statement for additional information.

For IRS Use Only

For Paperwork Reduction Act Notice, see Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2017

EXHIBIT 14-2

Source: U.S. Department of the Treasury, Internal Revenue Service, Schedule K-1 (Form 1065). Washington, DC: 2017.

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EXAMPLE 14-12

Knox is a partner in Knox, Smith, & Wood partnership. He owned 33.3% from January 1, 2017, to March 31, 2017, when he bought Smith's 33.3% interest. He owned 66.6% for the rest of the year. The partnership had $76,000 of ordinary income and $8,000 in long-term capital gains. Barring any special allocations in a partnership agreement, Knox's share of the income items follows:

Ordinary income	$76,000 × 33.3% × 3/12 =	$ 6,333*
	$76,000 × 66.6% × 9/12 =	38,000
Ordinary income allocated to Knox		$44,333
Capital gain	$8,000 × 33.3% × 3/12 =	$ 667
	$8,000 × 66.6% × 9/12 =	4,000
Capital gain allocated to Knox		$ 4,667

* Use of expanded decimal places reduces rounding errors.

Self-Employment Income

Another important item affecting a partner is self-employment income. As we have mentioned, a partner is not an employee of a partnership and, thus, must consider income from the partnership to be self-employment income. In Chapter 6, we noted that a self-employed individual must pay 15.3% of self-employment tax on the first $127,200 of self-employment income (wages in excess of $118,500 will be subject only to the Medicare rate of 2.9%). Normally, only ordinary income and guaranteed payments are included as self-employment income from the partnership.[12] Table 14-2 illustrates the basic computation of self- employment income using the information on the Schedule K-1 in Exhibit 14-2.

The partnership reports self-employment income to the partner on line 14 of Schedule K-1. The sum of all the partners' self-employment income should equal the total self-employment income on Form 1065, Schedule K, line 14a.

TABLE 14-2 Calculation of Self-Employment Income from a Partnership

1. Ordinary income from Schedule K-1, line 1	$ 60,540
2. Plus: Any guaranteed payments from Schedule K-1, line 4	42,000

3. Less: Any § 1231 gain included in ordinary income	–0–
4. Less: Any § 179 expense from Schedule K-1, line 12	(10,600)
Self-employment income Schedule K-1, line 14	$ 91,940

TAX YOUR BRAIN

Why are items such as dividends, capital gains, and royalty income not included in self-employment income? Likewise, why do charitable contributions not reduce self-employment income?

ANSWER

Only income and expenses from the operations of the partnership are included. Dividends, capital gains, and royalty income are not included as self-employment income because they are investment income. The partnership is just a conduit for the partners' charitable contributions.

CONCEPT CHECK 14-3—LO 14-3

1. Why are items such as rental income/loss, capital gains/losses, and charitable contributions that flow through a partnership treated as separately stated?
2. Why is income from a partnership treated as self-employment income?

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BASIS OF THE PARTNERSHIP INTEREST
LO 14-4

A partner's basis in his or her partnership interest changes over time. It is

extremely important to continue to recalculate basis for various reasons. For example, a partner must use the basis to determine any gain or loss on the sale or disposal of the interest, to determine the basis of property distributed from the partnership, and to determine whether losses from the partnership are deductible (see the at-risk rules in Chapter 13). Table 14-3 summarizes the process to calculate a partner's basis.[13]

Although it is advisable to keep a running total of a partner's basis each year, the basis calculation is mandatory at the following times:

In a year the partnership had a loss.

At the liquidation or disposition of a partner's interest.

In a year a partner receives nonliquidating distributions.

Increases and Decreases in Partnership Basis

Table 14-3 notes that the partner's share of separately stated items increases or decreases his or her basis. Do separately stated income items such as tax-exempt income increase basis? Do separately stated nondeductible loss or deduction items (such as life insurance premiums) decrease basis? The answers are yes. All income/gain or expense/loss items increase or decrease outside basis.

TAX YOUR BRAIN

Why do tax-exempt and nondeductible items increase or decrease basis?

ANSWER

If these items do not increase or decrease a partner's basis (outside basis), they will have a tax effect when the partnership interest is sold or disposed of. For example, if a partner's share of tax-exempt interest is $500, that $500 should never be taxed. If the partner's basis does not increase by $500, the partnership basis will be $500 lower. When the interest is sold, $500 in additional gain will be recognized. Thus the tax-exempt interest income will effectively be taxed. The same concept applies to nondeductible items but in the opposite direction.

There is a specific sequence to the basis adjustments. The order of adjustment follows:

Basis is first increased and decreased by all adjustments except for losses.

The adjustment is reduced by money distributed (including release of liabilities).

The adjustment is reduced by the basis of any property distributed.

TABLE 14-3 Basis of the Partnership Interest

Starting basis = Basis of property contributed + FMV of services rendered (or cost if partnership interest was purchased)*
Plus: Basis of property contributions after formation (cash or property)
Plus: Partner's share of partnership ordinary income
Plus: Partner's share of separately stated income or gain items
Plus: Partner's share in partnership liabilities
Less: Basis of property distributed (cash or property—but not below zero)
Less: Partner's share of partnership ordinary loss (but not below zero)
Less: Partner's share of separately stated loss/expense items
Less: Partner's release of partnership liabilities

* A partnership interest could be inherited or received by gift as well. If the interest is inherited, the beginning partnership basis is the FMV at the date of death of the decedent. The gift basis is typically the donor's basis plus any gift tax paid on the appreciation.

The basis that remains is used for the determination of any deductible losses from the partnership.

EXAMPLE 14-13

Partner Allison has a basis of $5,000 in a partnership at the beginning of the

year. She receives $3,000 in cash distributions, her distributive share of income is $2,500, and she receives a land distribution with a basis of $4,000 (FMV $10,000).

Beginning basis	$5,000
Share of income	2,500
Cash distribution	(3,000)
Land distribution	(4,000)
Year-end basis	$ 500

EXAMPLE 14-14

Use the information on the Schedule K-1 shown in Exhibit 14-2. If Luleng Wu's partnership basis at the beginning of 2017 was $22,000, calculate his basis at the end of 2017.

Beginning basis	$22,000
Share of ordinary income	60,540
Share of dividends	1,110
Share of short-term capital gains	440
Share of long-term capital gains	600
Share of net § 1231 gain	105
Charitable contributions	(2,600)
Section 179 expense	(10,600)
Wu's ending basis	$71,595

Notice in Example 14-14 and Table 14-3 that guaranteed payments are *not* used in the basis calculation. Typically, guaranteed payments do not have an impact on basis. The partner recognizes income from the guaranteed payment but receives a payment for the exact amount. Thus the increase (income recognized) and the decrease (cash distribution) exactly cancel out.[14]

Liabilities

In Example 14-14, you may have noticed that we did not include any liabilities in the basis even though the partner's Schedule K-1 clearly shows the partner's share of liabilities in Section K. In practice, most tax preparers calculate basis but ignore the liability implications. In most cases, liabilities are considered only if the increase in basis is necessary to deduct a loss from the partnership. The primary reason for this common practice is that the liability level of the partnership is consistently changing, and most of the time the calculation is simply not necessary.

EXAMPLE 14-15

Using the same facts as in Example 14-14, we calculate the ending basis including liabilities as follows:

Ending basis	$ 71,595
Qualified nonrecourse	26,300
Other debt	43,000
Total basis including liabilities	$140,895

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CONCEPT CHECK 14-4—LO 14-4

1. A partner must use basis to determine the gain or loss on a sale of the partnership interest and to determine whether losses are deductible. True or false?
2. A partner's basis is not increased by his or her share of tax-exempt income items. True or false?
3. In the calculation of basis, the order of the basis adjustments is not important. True or false?
4. A partner's basis is never increased by his or her share of recourse liabilities. True or false?

PARTNERSHIP DISTRIBUTIONS
LO 14-5

One of the convenient features of a partnership is flexibility concerning distributions. As a general rule, a partner recognizes no gain or loss on a nonliquidating distribution.[15]

EXAMPLE 14-16

Davis, a 50% partner in ABCD partnership, has a basis of $85,000 in his partnership interest. He receives a cash distribution of $84,000 at year-end. Davis recognizes no gain or loss on the distribution but reduces his basis to $1,000.

TAX YOUR BRAIN

Why does the IRS allow the tax-free distribution in Example 14-16?

ANSWER

For Davis to have a predistribution basis of $85,000, he would have made past contributions or have been taxed on income to increase his basis. Therefore, he is receiving either a distribution of previously taxed income or a distribution of his own capital, neither of which is taxed. This is a significant advantage of the partnership form over the corporate form. A distribution from a corporation is usually considered a taxable dividend.

Gain on Current Distributions

The two exceptions to the general rule of no gain or loss on current distributions follow:

When money or marketable securities are distributed in excess of the partner's basis, a gain is recognized to the extent of the excess.[16]

The current distribution triggers a precontribution gain.[17]

Basis can never go below zero. Thus if money or marketable securities

(cashlike assets) exceed the partner's basis, the partner recognizes the excess as a capital gain.[18]

EXAMPLE 14-17

Assume the same facts as in Example 14-16. If Davis received a cash distribution of $86,000, he must recognize a $1,000 capital gain. After the distribution and recognized gain, he would have a zero basis in the partnership at year-end.

A precontribution gain occurs when a partner contributes appreciated property to a partnership and, within seven years, the partnership distributes the same property to another partner. In essence, the contributing partner is selling the property to the distributing partner and attempting to eliminate the gain by passing it through the partnership. If the contributed property is distributed to another partner within the seven-year time frame, the contributing partner recognizes the deferred gain.

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EXAMPLE 14-18

Bailey contributes land to a partnership with a basis of $8,000 and an FMV of $12,000 in 2015. In 2017, when the FMV of the land is $14,000, the partnership distributes the land to Jessica, another partner. The distribution triggers a precontribution gain of $4,000 to Bailey. Jessica has no gain or loss on the distribution and would have a basis of $12,000 in the land ($8,000 carryover basis plus the $4,000 gain recognized by Bailey).

Basis of Distributed Property

When property is distributed to a partner from a partnership, neither the partner nor the partnership recognizes any gain. The basis and the holding period of the distributed property carry over to the partner.[19] Hence the partner steps into the shoes of the partnership. The only exception to the carryover basis rule occurs when the basis in the distributed property exceeds the basis in the partnership interest. The basis of the distributed property is limited to the basis of the partnership interest. Recall that the partner recognizes a gain only if the distribution exceeds basis and the

distribution consists only of money and marketable securities.[20]

EXAMPLE 14-19

Fonda has a partnership basis of $6,000. She receives, from the partnership, a distribution of equipment with a basis to the partnership of $8,000 and an FMV of $5,000. The basis in the equipment to Fonda after the distribution is limited to her basis in the partnership of $6,000. Fonda recognizes no gain or loss and has a zero basis in her partnership interest after the distribution.

EXAMPLE 14-20

Assume the same facts as in Example 14-19 except that Fonda receives a $2,000 cash distribution and the equipment. In this case, she would first reduce her partnership basis by the $2,000 cash distribution. Fonda still does not recognize any gain but now has a basis of $4,000 in the equipment.

CONCEPT CHECK 14-5—LO 14-5

1. Which of the following is true concerning the recognition of gain on a distribution from a partnership?

   a. Gain is recognized if the partner receives property with a basis higher than his or her partnership interest basis.

   b. Gain is recognized if the partner receives cash in excess of his or her basis.

   c. The partner never recognizes a gain on a partnership distribution.

   d. The partner always recognizes a gain on a partnership distribution.

2. Nelson has a partnership basis of $12,000. He receives, from the partnership, a distribution of furniture with a basis to the partnership of $16,000 and an FMV of $10,000. Nelson's basis in the furniture after the distribution from the partnership is

   a. $10,000.

   b. $12,000.

   c. $16,000.

d. None of the above.

3. Assume the same facts as in Question 2. However, Nelson receives a cash distribution of $4,000 with the furniture. The basis in the furniture after the distributions is

a. $8,000.

b. $10,000.

c. $12,000.

d. $16,000.

DISPOSAL OR LIQUIDATION OF A PARTNERSHIP INTEREST

LO 14-6

The most common way to dispose of a partnership interest is either through partnership liquidation or by selling the interest.[21]

Liquidation of a Partnership Interest

Liquidation occurs when a partner's entire interest is redeemed by the partnership. Most of the rules concerning nonliquidating distributions (discussed previously) also apply to liquidating distributions. Thus a distribution of money in excess of basis causes a capital gain. If property is received in the liquidating distribution, no gain is recognized, and the basis of the property is adjusted as shown in Example 14-19.

One substantial difference in the liquidation rules and regular distribution rules is that a loss can be recognized on liquidating distributions. A loss occurs when the amounts received in liquidation are less than the partner's outside basis. One major caveat is that the loss can be recognized only after the final payment is received from the partnership and when only money, receivables, and/or inventory is/are distributed.

EXAMPLE 14-21

Cassandra has a $20,000 basis in her partnership interest when she receives liquidating distributions from the partnership. She receives cash of $12,000 and equipment with a basis to the partnership of $6,000. Cassandra recognizes no gain or loss on the liquidating distribution. The equipment will have a basis to her of $8,000 ($20,000 partnership basis minus cash received of $12,000).

EXAMPLE 14-22

Assume the same facts as in Example 14-21 except that Cassandra receives cash of $12,000 and inventory with a basis to the partnership of $6,000. Cassandra recognizes a loss of $2,000 on the liquidation (cash and inventory basis of $18,000 minus the $20,000 partnership basis); the inventory will have a basis to her of $6,000.

If several assets are distributed in liquidation and the partner does not have outside basis to cover the basis in the partnership assets distributed, the outside basis is allocated among the distributed assets as follows:

The partnership basis is first reduced by money distributions.

Any remaining basis covers the basis in receivables and inventory distributed.

Any remaining basis is allocated to the other assets distributed in proportion to each asset's basis.[22]

EXAMPLE 14-23

Kelsey has a basis in her partnership interest of $10,000. She receives the following assets in complete liquidation of the partnership interest:

Cash	$ 3,000
Inventory (basis)	2,000
Equipment (basis)	2,000
Land (basis)	4,000

Kelsey has no recognized gain or loss, and her $10,000 outside basis is

allocated to the assets as follows:

Cash	$3,000
Inventory	2,000
Equipment ($5,000 × $2,000/$6,000)	1,667
Land ($5,000 × $4,000/$6,000)	3,333

Sale of a Partnership Interest

The sale of a partnership interest is similar to the sale of any capital asset. The partner determines the amount realized from the sale and subtracts the basis of the partnership interest at the date of sale. The gain or loss is a capital item, and, assuming that the partner is an individual, he or she reports the transaction on Schedule D of Form 1040.

EXAMPLE 14-24

Bart purchased a 30% partnership interest for $23,000 in February 2015. His share of partnership income in subsequent years was $12,000 in 2015, $15,000 in 2016, and $8,000 in 2017. He made no additional contributions to, or withdrawals from, the partnership. On December 18, 2017, Bart sold his partnership interest for $74,000. His long-term capital gain is $16,000.

Amount realized		$ 74,000
Basis: Beginning	$ 23,000	
2015 income	+12,000	
2016 income	+15,000	
2017 income	+ 8,000	(58,000)
Long-term capital gain		$ 16,000

The partner may be subject to ordinary income from the sale if the partnership has substantially appreciated inventory or accounts receivable.[23] If the partnership sold or collected these items, ordinary income would result, and the partner would share in that ordinary income. A partner who is allowed capital gain treatment on the sale of the partnership interest would effectively convert the ordinary income to capital gain income and benefit from the preferential capital gain rates. IRC § 751 prevents this conversion.

EXAMPLE 14-25

Assume the same facts as in Example 14-24. However, the partnership has uncollected accounts receivable with an FMV of $20,000 and a basis of $0.[24] Because Bart's share in the receivables is $6,000 (30% interest × $20,000), $6,000 of the $16,000 gain is ordinary, and the remaining $10,000 is capital gain.

CONCEPT CHECK 14-6—LO 14-6

1. Shelly has a basis in her partnership interest of $30,000. She receives the following assets in complete liquidation of the partnership interest:

Cash	$ 9,000
Inventory (basis)	6,000
Equipment (basis)	8,000
Land (basis)	12,000

a. What is Shelly's recognized gain?

b. What is Shelly's basis in each of the assets distributed?

2. Callie purchased a 60% partnership interest for $55,000 in March 2016. She had income of $18,000 from the partnership in 2016 and $26,000 in 2017. She made no additional contributions to, or withdrawals from, the partnership. On December 30, 2017, Callie sold her partnership interest for $107,000.

a. What is Callie's basis before the sale?

b. What is Callie's gain or loss?

c. Is the gain or loss (if any) capital or ordinary?

Comprehensive Example

Shafer and Jones Consulting, LLC, is a partnership formed on January 1,

2014, to perform business consulting services. The business is located at 1482 Jones Business Complex, Anywhere, NC 27858. Its Employer ID is 92-1234567; it uses the tax/cash basis of accounting, is not subject to partnership audit procedures, has no foreign interests, and is not a tax shelter.

The home address for David A. Shafer (SSN 412-34-5670) is 103 Flower Road, Anywhere, NC 27858. He is a 60% partner. Robert B. Jones (SSN 412-34-5671) lives at 534 Bates Road, Anywhere, NC 27858. He is a 40% partner.

In 2017, David received a distribution of $60,000, and Robert received a $40,000 distribution. Both of these distributions are in addition to the guaranteed payments.

SHAFER AND JONES CONSULTING, LLC
Comparative Balance Sheet
As of December 31, 2016, and December 31, 2017

	12/31/16	12/31/17
Assets		
Cash	$ 29,452	$ 35,452
Investments	153,345	105,480
Office equipment	123,000	143,800
Accumulated depreciation (equipment)	(68,880)	(71,852)
Building	245,600	245,600
Accumulated depreciation (building)	(18,616)	(24,913)
Total assets	$463,901	$433,567
Liabilities and equity		
Notes payable	$233,800	$228,333
Capital accounts		
Capital, Shafer	138,061	123,140
Capital, Jones	92,040	82,094
Total liabilities and equity	$463,901	$433,567

SHAFER AND JONES CONSULTING, LLC
Income Statement
For the Year Ending December 31, 2017

Revenue	
Consulting income	$554,897
Interest income	1,231
Dividend income (qualified)	3,234
Long-term capital losses	(12,435)
Total revenue	$546,927

Expenses	
Salaries and wages (nonpartners)	$153,000
Guaranteed payments	
Shafer	100,000
Jones	96,000
Depreciation (MACRS—includes $5,000 § 179 expense)	31,448
Interest expense	15,983
Taxes and licenses	15,548
Utilities	12,132
Travel	11,458
Meals and entertainment (100%)	11,345
Auto	9,880
Insurance (nonpartner health)	5,000
Accounting and legal	4,800
Repairs	3,200
Charitable contributions	1,500
Payroll penalties	500
Total expenses	$471,794
Net income	$ 75,133

See Table 14-4 for a spreadsheet of partnership ordinary income and separately stated items. Exhibits 14-3 and 14-4 show the presentation of Form 1065 and Schedule K-1s for Shafer and Jones Consulting. Form 4562 (depreciation), Schedule D (capital gains and losses), and a statement listing other deductions (line 20 of Form 1065) are omitted from the example.

TABLE 14-4

SHAFER AND JONES CONSULTING, LLC Income Statement For the Year Ending December 31, 2017			
	Adjustments	**Ordinary**	**Separately Stated**
Consulting income		554,897	
Interest income			1,231
Dividend income (qualified)			3,234
Long-term capital losses			(12,435)
Expenses			
Salaries and wages (nonpartners)		153,000	
Guaranteed payments			
Shafer		100,000	100,000
Jones		96,000	96,000
Depreciation (MACRS—includes $5,000 § 179 expense)		26,448	5,000
Interest expense		15,983	
Taxes and licenses		15,548	
Utilities		12,132	
Travel		11,458	
Meals and entertainment (100%)	(5,673)*	5,672*	
Auto		9,880	
Insurance (nonpartner health)		5,000	
Accounting and legal		4,800	
Repairs		3,200	
Charitable contributions			1,500
Payroll penalties	(500)†		
Net income	$ 75,133	$ 95,776	

* Only 50% of meals and entertainment expenses are allowed.

† Penalties are not deductible.

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Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2017, or tax year beginning ______, 2017, ending ______, 20___
▶ Go to *www.irs.gov/Form1065* for instructions and the latest information.

OMB No. 1545-0123
2017

A Principal business activity: Consulting	Type or Print	Name of partnership: Shafer and Jones Consulting, LLC	D Employer identification number: 92-1234567
B Principal product or service: Consulting		Number, street, and room or suite no. If a P.O. box, see the instructions: 1482 Jones Business Complex	E Date business started: 01/01/14
C Business code number: 541600		City or town, state or province, country, and ZIP or foreign postal code: Anywhere, NC 27858	F Total assets (see the instructions): $ 433,567

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return
(6) ☐ Technical termination - also check (1) or (2)

H Check accounting method: (1) ☑ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶ ______

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ Two

J Check if Schedules C and M-3 are attached ☐

Caution. *Include* **only** *trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

	Line	Description				Amount
Income	1a	Gross receipts or sales	1a	554,897		
	b	Returns and allowances	1b			
	c	Balance. Subtract line 1b from line 1a			1c	554,897
	2	Cost of goods sold (attach Form 1125-A)			2	0
	3	Gross profit. Subtract line 2 from line 1c			3	554,897
	4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)			4	
	5	Net farm profit (loss) (attach Schedule F (Form 1040))			5	
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			6	
	7	Other income (loss) (attach statement)			7	
	8	**Total income (loss).** Combine lines 3 through 7			8	554,897
Deductions (see the instructions for limitations)	9	Salaries and wages (other than to partners) (less employment credits)			9	153,000
	10	Guaranteed payments to partners			10	196,000
	11	Repairs and maintenance			11	3,200
	12	Bad debts			12	
	13	Rent			13	
	14	Taxes and licenses			14	15,548
	15	Interest			15	15,893
	16a	Depreciation (if required, attach Form 4562)	16a	26,448		
	b	Less depreciation reported on Form 1125-A and elsewhere on return	16b		16c	26,448
	17	Depletion **(Do not deduct oil and gas depletion.)**			17	
	18	Retirement plans, etc.			18	
	19	Employee benefit programs			19	
	20	Other deductions (attach statement)			20	48,942
	21	**Total deductions.** Add the amounts shown in the far right column for lines 9 through 20			21	459,121
	22	**Ordinary business income (loss).** Subtract line 21 from line 8			22	95,776

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.

▶ ______ Signature of partner or limited liability company member ▶ ______ Date

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
	Firm's name ▶			Firm's EIN ▶	
	Firm's address ▶			Phone no.	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form **1065** (2017)

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Schedule B **Other Information**

		Yes	No
1	What type of entity is filing this return? Check the applicable box: a ☐ Domestic general partnership b ☐ Domestic limited partnership c ☑ Domestic limited liability company d ☐ Domestic limited liability partnership e ☐ Foreign partnership f ☐ Other ▶		
2	At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person?		✓
3	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership		✓
b	Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership	✓	
4	At the end of the tax year, did the partnership:		
a	Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below		✓

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock

		Yes	No
b	Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below		✓

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Owned in Profit, Loss, or Capital

		Yes	No
5	Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details		✓
6	Does the partnership satisfy **all four** of the following conditions?		
a	The partnership's total receipts for the tax year were less than $250,000.		
b	The partnership's total assets at the end of the tax year were less than $1 million.		
c	Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.		
d	The partnership is not filing and is not required to file Schedule M-3		✓
	If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item L on Schedule K-1.		
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		✓
8	During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt?		✓
9	Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction?		✓
10	At any time during calendar year 2017, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR). If "Yes," enter the name of the foreign country. ▶		✓

Form **1065** (2017)

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Schedule B **Other Information *(continued)***

		Yes	No
11	At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions		✓
12a	Is the partnership making, or had it previously made (and not revoked), a section 754 election? See instructions for details regarding a section 754 election.		✓
b	Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		✓
c	Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		✓
13	Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly owned by the partnership throughout the tax year) ▶ ☐		
14	At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property?		✓
15	If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See instructions ▶		
16	Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership. ▶		✓
17	Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return. ▶		
18a	Did you make any payments in 2017 that would require you to file Form(s) 1099? See instructions	✓	
b	If "Yes," did you or will you file required Form(s) 1099?	✓	
19	Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return. ▶		
20	Enter the number of partners that are foreign governments under section 892. ▶		
21	During the partnership's tax year, did the partnership make any payments that would require it to file Form 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474)?		✓
22	Was the partnership a specified domestic entity required to file Form 8938 for the tax year (See the Instructions for Form 8938)?		✓

Designation of Tax Matters Partner (see instructions)

Enter below the general partner or member-manager designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶	David A. Shafer	Identifying number of TMP ▶	412-34-5670
If the TMP is an entity, name of TMP representative ▶		Phone number of TMP ▶	252-555-5555
Address of designated TMP ▶	103 Flower Road Anywhere, NC 27858		

Form **1065** (2017)

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Schedule K **Partners' Distributive Share Items**

Section	Line	Item			Line	Total amount
Income (Loss)	1	Ordinary business income (loss) (page 1, line 22)			1	95,776
	2	Net rental real estate income (loss) (attach Form 8825)			2	
	3a	Other gross rental income (loss)	3a			
	b	Expenses from other rental activities (attach statement)	3b			
	c	Other net rental income (loss). Subtract line 3b from line 3a			3c	
	4	Guaranteed payments			4	196,000
	5	Interest income			5	1,231
	6	Dividends: a Ordinary dividends			6a	3,234
		b Qualified dividends	6b	3,234		
	7	Royalties			7	
	8	Net short-term capital gain (loss) (attach Schedule D (Form 1065))			8	
	9a	Net long-term capital gain (loss) (attach Schedule D (Form 1065))			9a	(12,435)
	b	Collectibles (28%) gain (loss)	9b			
	c	Unrecaptured section 1250 gain (attach statement)	9c			
	10	Net section 1231 gain (loss) (attach Form 4797)			10	
	11	Other income (loss) (see instructions) Type ▶			11	
Deductions	12	Section 179 deduction (attach Form 4562)			12	5,000
	13a	Contributions			13a	1,500
	b	Investment interest expense			13b	
	c	Section 59(e)(2) expenditures: (1) Type ▶	(2) Amount ▶		13c(2)	
	d	Other deductions (see instructions) Type ▶			13d	
Self-Employment	14a	Net earnings (loss) from self-employment			14a	286,776
	b	Gross farming or fishing income			14b	
	c	Gross nonfarm income			14c	
Credits	15a	Low-income housing credit (section 42(j)(5))			15a	
	b	Low-income housing credit (other)			15b	
	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)			15c	
	d	Other rental real estate credits (see instructions) Type ▶			15d	
	e	Other rental credits (see instructions) Type ▶			15e	
	f	Other credits (see instructions) Type ▶			15f	
Foreign Transactions	16a	Name of country or U.S. possession ▶				
	b	Gross income from all sources			16b	
	c	Gross income sourced at partner level			16c	
		Foreign gross income sourced at partnership level				
	d	Passive category ▶ e General category ▶ f Other ▶			16f	
		Deductions allocated and apportioned at partner level				
	g	Interest expense ▶ h Other ▶			16h	
		Deductions allocated and apportioned at partnership level to foreign source income				
	i	Passive category ▶ j General category ▶ k Other ▶			16k	
	l	Total foreign taxes (check one): ▶ Paid ☐ Accrued ☐			16l	
	m	Reduction in taxes available for credit (attach statement)			16m	
	n	Other foreign tax information (attach statement)				
Alternative Minimum Tax (AMT) Items	17a	Post-1986 depreciation adjustment			17a	
	b	Adjusted gain or loss			17b	
	c	Depletion (other than oil and gas)			17c	
	d	Oil, gas, and geothermal properties—gross income			17d	
	e	Oil, gas, and geothermal properties—deductions			17e	
	f	Other AMT items (attach statement)			17f	
Other Information	18a	Tax-exempt interest income			18a	
	b	Other tax-exempt income			18b	
	c	Nondeductible expenses			18c	6,173
	19a	Distributions of cash and marketable securities			19a	100,000
	b	Distributions of other property			19b	
	20a	Investment income			20a	
	b	Investment expenses			20b	
	c	Other items and amounts (attach statement)				

Form 1065 (2017)

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Form 1065 (2017) Page **5**

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l	1	277,306

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt Organization	(vi) Nominee/Other
a General partners		277,306				
b Limited partners						

Schedule L **Balance Sheets per Books**

Assets	Beginning of tax year (a)	(b)	End of tax year (c)	(d)
1 Cash		29,452		35,452
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets (attach statement)				
7a Loans to partners (or persons related to partners)				
b Mortgage and real estate loans				
8 Other investments (attach statement)		153,345		105,480
9a Buildings and other depreciable assets	386,600		389,400	
b Less accumulated depreciation	87,496	281,104	97,765	292,635
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets (attach statement)				
14 Total assets		463,901		433,567
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year		233,800		228,333
17 Other current liabilities (attach statement)				
18 All nonrecourse loans				
19a Loans from partners (or persons related to partners)				
b Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities (attach statement)				
21 Partners' capital accounts		230,101		205,234
22 Total liabilities and capital		463,901		433,567

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income (Loss) per Return**
Note. The partnership may be required to file Schedule M-3 (see instructions).

1 Net income (loss) per books	75,133	6 Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize): a Tax-exempt interest $	
2 Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):			
3 Guaranteed payments (other than health insurance)	196,000	7 Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize):	
4 Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize):		a Depreciation $	
a Depreciation $		8 Add lines 6 and 7	
b Travel and entertainment $ 6,173	6,173	9 Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	277,306
5 Add lines 1 through 4	277,306		

Schedule M-2 **Analysis of Partners' Capital Accounts**

1 Balance at beginning of year	230,101	6 Distributions: a Cash	100,000
2 Capital contributed: a Cash		b Property	
b Property		7 Other decreases (itemize):	
3 Net income (loss) per books	75,133		
4 Other increases (itemize):		8 Add lines 6 and 7	100,000
5 Add lines 1 through 4	305,234	9 Balance at end of year. Subtract line 8 from line 5	205,234

Form **1065** (2017)

EXHIBIT 14-3

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1065. Washington, DC: 2017.

651117

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0123

Schedule K-1 (Form 1065) **2017**

Department of the Treasury
Internal Revenue Service

For calendar year 2017, or tax year

beginning / / 2017 ending / /

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
92-1234567

B Partnership's name, address, city, state, and ZIP code
Shafer and Jones Consulting, LLC
1842 Jones Business Center
Anywhere, NC 27858

C IRS Center where partnership filed return
Cincinnati, OH

D ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
412-34-5670

F Partner's name, address, city, state, and ZIP code
David A. Shafer
103 Flower Road
Anywhere, NC 27858

G ☐ General partner or LLC member-manager ☐ Limited partner or other LLC member

H ☒ Domestic partner ☐ Foreign partner

I1 What type of entity is this partner? Individual

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here ☐

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	60 %
Loss	%	60 %
Capital	%	60 %

K Partner's share of liabilities at year end:

Nonrecourse	$
Qualified nonrecourse financing	$
Recourse	$ 137,000

L Partner's capital account analysis:

Beginning capital account	$ 138,061
Capital contributed during the year	$
Current year increase (decrease)	$ 45,080
Withdrawals & distributions	$ (60,000)
Ending capital account	$ 123,140

☒ Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

M Did the partner contribute property with a built-in gain or loss?
☐ Yes ☒ No
If "Yes," attach statement (see instructions)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Line	Item	Amount
1	Ordinary business income (loss)	57,466
2	Net rental real estate income (loss)	
3	Other net rental income (loss)	
4	Guaranteed payments	100,000
5	Interest income	739
6a	Ordinary dividends	1,940
6b	Qualified dividends	1,940
7	Royalties	
8	Net short-term capital gain (loss)	
9a	Net long-term capital gain (loss)	(7,461)
9b	Collectibles (28%) gain (loss)	
9c	Unrecaptured section 1250 gain	
10	Net section 1231 gain (loss)	
11	Other income (loss)	
12	Section 179 deduction	3,000
13	Other deductions	A 900
14	Self-employment earnings (loss)	A 154,466
15	Credits	
16	Foreign transactions	
17	Alternative minimum tax (AMT) items	
18	Tax-exempt income and nondeductible expenses	C 3,704
19	Distributions	A 60,000
20	Other information	

*See attached statement for additional information.

For IRS Use Only

For Paperwork Reduction Act Notice, see Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2017

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651117

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0123

Schedule K-1 (Form 1065) **2017**

Department of the Treasury
Internal Revenue Service

For calendar year 2017, or tax year

beginning / / 2017 ending / /

Partner's Share of Income, Deductions, Credits, etc. ▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
92-1234567

B Partnership's name, address, city, state, and ZIP code
Shafer and Jones Consulting, LLC
1842 Jones Business Center
Anywhere, NC 27858

C IRS Center where partnership filed return
Cincinnati, OH

D ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
412-34-5671

F Partner's name, address, city, state, and ZIP code
Robert B. Jones
543 Bates Road
Anywhere, NC 27858

G ☐ General partner or LLC member-manager ☐ Limited partner or other LLC member

H ☒ Domestic partner ☐ Foreign partner

I1 What type of entity is this partner? Individual

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here ☐

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	40 %
Loss	%	40 %
Capital	%	40 %

K Partner's share of liabilities at year end:

Nonrecourse	$
Qualified nonrecourse financing	$
Recourse	$ 91,333

L Partner's capital account analysis:

Beginning capital account	$ 92,040
Capital contributed during the year	$
Current year increase (decrease)	$ 30,053
Withdrawals & distributions	$ (40,000)
Ending capital account	$ 82,094

☒ Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

M Did the partner contribute property with a built-in gain or loss?
☐ Yes ☒ No
If "Yes," attach statement (see instructions)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Line	Item	Amount
1	Ordinary business income (loss)	38,310
2	Net rental real estate income (loss)	
3	Other net rental income (loss)	
4	Guaranteed payments	96,000
5	Interest income	492
6a	Ordinary dividends	1,294
6b	Qualified dividends	1,294
7	Royalties	
8	Net short-term capital gain (loss)	
9a	Net long-term capital gain (loss)	(4,974)
9b	Collectibles (28%) gain (loss)	
9c	Unrecaptured section 1250 gain	
10	Net section 1231 gain (loss)	
11	Other income (loss)	
12	Section 179 deduction	2,000
13	Other deductions	A 600
14	Self-employment earnings (loss)	A 132,310
15	Credits	
16	Foreign transactions	
17	Alternative minimum tax (AMT) items	
18	Tax-exempt income and nondeductible expenses	C 2,469
19	Distributions	A 40,000
20	Other information	

*See attached statement for additional information.

For IRS Use Only

For Paperwork Reduction Act Notice, see Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2017

EXHIBIT 14-4

Source: U.S. Department of the Treasury, Internal Revenue Service, Schedule K-1 (Form 1065). Washington, DC: 2017.

Summary

LO 14-1: Explain the rules dealing with the formation of a partnership.

- Generally there is no gain or loss on formation.
- Basis determination is very important.
- *Outside basis* is the tax basis of the partnership interest to the partner.
- *Inside basis* is the partner's share of the basis of partnership assets.
- The partnership holding period carries over from the contributing partner.
- The FMV of services is income to the contributing partner.
- Property contributed with liabilities may trigger a gain to the contributing partner.

LO 14-2: Be able to report partnership ordinary income or loss.

- The partnership files an annual information return, Form 1065.
- Partnership income is separated into ordinary income or loss and separately stated items.
- Income or loss is reported to partners on Schedule K-1.
- Ordinary income is calculated as for a Schedule C business.
- Guaranteed payments are an expense to the partnership.
- The § 179 depreciation expense deduction must be separately stated.
- Partner health insurance premiums are treated as a guaranteed payment.

LO 14-3: Determine separately stated items.

- Separately stated items are income or expense items that may be treated differently at the partner level.
- Examples of separately stated items include interest, capital gains, charitable contributions, and self-employment income.

LO 14-4: Calculate partner basis.

- In general, partner basis is equal to the basis of property contributed, plus or minus income or loss, plus or minus separately stated items, plus partner share of liabilities.

LO 14-5: Apply the rules for partnership distributions.

- In general, no gain or loss is recorded on a nonliquidating distribution.
- Distributions reduce basis.
- Partner basis of property received generally equals the partnership basis.

LO 14-6: Correctly report partnership liquidations and dispositions.

- Generally no gain or loss occurs on partnership liquidation.
- Exceptions exist if amount in liquidation is less than basis and the distribution is only cash, receivables, or inventory.
- Sale of partnership interest is sale of a capital asset.
- If a partnership holds appreciated inventory or accounts

receivable, part of the gain may be ordinary.

Discussion Questions

All applicable discussion questions are available with ***Connect***©

LO 14-1 1. Discuss the formation of a partnership. Is any gain or loss recognized? Explain.

LO 14-1 2. What entity forms are considered partnerships for federal income tax purposes?

LO 14-1 3. How do taxation for the corporate form and taxation for the partnership form differ?

LO 14-1 4. What is the concept of *basis*? In your discussion, differentiate between outside basis and inside basis.

LO 14-1 5. Elaborate on the term *basis-in, basis-out*. What does that phrase mean in the context of a partnership formation?

LO 14-1 6. How can two partners, each with a 50% interest in a partnership, have different amounts of outside basis at the formation of a partnership? Shouldn't the two partners contribute the same amount to have the same interest?

LO 14-1 7. When a partnership receives an asset from a partner, does the partnership ever recognize a gain? What is the basis of the asset in the hands of the partnership after contribution?

LO 14-1 8. Discuss the concept of *steps into the shoes*. Does this concept pertain to the partnership, the partners, or both?

LO 14-1 9. Why would smaller partnerships (and other businesses for that matter) use only the tax basis of accounting, which does not follow GAAP?

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LO 14-2 10. How is depreciation calculated by the partnership when a partner contributes a business asset?

LO 14-2 11. Discuss the concepts of *ordinary income* and *separately stated items* concerning partnerships. When must a partnership item of income or loss be separately stated, and why?

____

____

____

LO 14-2 12. Can a partner have a salary from a partnership? Why? What is a *guaranteed payment*?

____

____

____

LO 14-2 13. Are guaranteed payments treated as ordinary items or as separately stated items?

____

____

____

LO 14-2 14. Is the § 179 expense deduction allowed for partnerships? If so, is § 179 an ordinary income item or a separately stated item? Why?

____

____

____

LO 14-3 15. If a partner owns a 20% interest, does that necessarily mean that he or she will receive 20% of the net income from the partnership? Explain.

____

____

____

LO 14-3 16. Is partnership income considered self-employment income? If so, how is it calculated?

____

____

LO 14-3 17. Why must some income and gain items be separately stated in a partnership?

LO 14-4 18. Explain why nontaxable income and nondeductible expenses increase or reduce outside basis.

LO 14-4 19. When is it mandatory that a partner calculate his or her partner interest basis (outside basis)? What items affect the outside basis of a partner?

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LO 14-4 20. How does a partner's share of partnership liabilities affect his or her outside basis?

LO 14-5 21. The general rule is that partners do not recognize any gain when they receive a distribution. In what circumstances might a partner recognize a gain on a current distribution?

LO 14-5 22. Define *precontribution gain*. What causes a partner to recognize it?

LO 14-5 23. Describe the rules concerning the basis of property distributed to a partner. How does the concept of *basis-in, basis-out* apply to partnership distributions?

LO 14-6 24. How can a partnership interest be disposed of? Which disposal method is more likely to produce a gain or loss? How is the gain or loss calculated?

LO 14-6 25. How is the outside basis of a partner allocated to assets in a liquidation of the partnership interest? Include in your answer the effects of distributing cash, ordinary assets, § 1231 assets, and capital assets.

Multiple-Choice Questions

All applicable multiple-choice questions are available with ***Connect***©

LO 14-1 26. Carmin performs services in exchange for a 25% interest in Real Estate Rental Partnership. The services were worth $15,000. The tax implications to Carmin are

a. No taxable income and a partnership interest with a basis of $0.

b. No taxable income and a partnership interest with a basis of $15,000.

c. $15,000 of taxable income and a partnership interest with a basis of $0.

d. $15,000 of taxable income and a partnership interest with a basis of $15,000.

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LO 14-1 27. Billy contributes land with an FMV of $7,000 and a basis of $3,000 to ABCD Partnership in return for a 5% partnership interest in the partnership. Billy's basis in the partnership

a. Is $0.

b. Is $3,000.

c. Is $7,000.

d. Cannot be determined.

LO 14-1 28. Billy contributes land with an FMV of $7,000 and a basis of $3,000 to ABCD Partnership in return for a 5% partnership interest in the partnership. ABCD's basis in the land

a. Is $0.

b. Is $3,000.

c. Is $7,000.

d. Cannot be determined.

LO 14-1 29. Jake has a Schedule C with the following assets:

	Basis	FMV
Cash	$ 4,500	$ 4,500
Accounts receivable (A / R)	–0–	10,000
Building	95,000	155,000

Jake contributes these assets to form AJ Partnership and receives a 50% interest. His basis in the partnership interest is

a. $0.

b. $99,500.

c. $159,500.

d. $169,500.

LO 14-1 30. Jake has a Schedule C with the following assets:

	Basis	FMV
Cash	$ 4,500	$ 4,500
Accounts receivable	–0–	10,000

(A/R)		
Building	95,000	155,000

Jake contributes these assets to form AJ Partnership and receives a 50% interest. AJ's basis in the assets is

a. Cash $4,500; A/R $0; building $155,000.

b. Cash $4,500; A/R $10,000; building $155,000.

c. Cash $4,500; A/R $0; building $95,000.

d. Cash $4,500; A/R $10,000; building $95,000.

LO 14-1 31. Allie contributed the following business assets to ASW Partnership on August 1, 2017:

	Basis	FMV	Date Purchased by Allie
Building	$175,000	$300,000	07/01/04
Inventory	50,000	100,000	05/08/14

What is the holding period for the building and the inventory to ASW Partnership?

a. Building—long-term capital or § 1231 asset.

b. Building—short-term ordinary asset.

c. Inventory—short-term ordinary asset.

d. Both *a* and *c*.

LO 14-1 32. Shelly contributed the following business assets to S&S Partnership on March 3, 2017:

	Basis	FMV	Date Purchased by Shelly
Equipment	$75,000	$ 45,000	07/01/16
Accounts receivable	–0–	100,000	Various

What is the basis in the equipment and the accounts receivable to S&S?

a. Equipment $0; accounts receivable $0.

b. Equipment $75,000; accounts receivable $0.

c. Equipment $45,000; accounts receivable $0.

d. Equipment $45,000; accounts receivable $100,000.

LO 14-2 33. Which of the following is considered when calculating ordinary income to a partnership?

a. Dividend income.

b. § 179 expense.

c. Guaranteed payments to partners.

d. Capital gains and losses.

LO 14-2 34. Styron is a partner in Styron, Lee, & Jane Partnership. Styron owned 25% from January 1, 2017, to June 30, 2017, when he bought Lee's 25% interest. He owned 50% for the rest of the year. The partnership had ordinary income of $88,000 and $12,000 in long-term capital gains. Barring any special allocations in a partnership agreement, Styron's share of ordinary income for the year is

a. $11,000.

b. $33,000.

c. $88,000.

d. $100,000.

LO 14-3 35. All of the following are considered separately stated items to a partnership *except*

a. Charitable contributions.

b. § 179 expense.

c. Depreciation.

d. Capital gains and losses.

LO 14-3 36. Which of the following items from a partnership go into the calculation of a partner's self-employment income?

a. Rental income.

b. Dividend income.

c. Interest income.

d. § 179 expense.

LO 14-3 37. A partner's share of ordinary income or loss and separately stated items is reported to the partner via what form?

a. Form 1065.

b. Form 1040, Schedule SE.

c. Form 1065, Schedule K-1.

d. Form 1065, Schedule D.

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LO 14-3 38. Retish is a 10% partner in a partnership. The partnership pays Retish a guaranteed payment of $45,000 per year. If the partnership's ordinary income is $38,000 before considering the guaranteed payment, the partnership will report ordinary income of how much?

a. ($7,000).

b. $ 0.

c. $33,500.

d. $38,000.

LO 14-4 39. The calculation of a partner's basis in his or her partnership interest is mandatory in which of the following situations?

a. In a partnership loss year.

b. At the liquidation or disposition of a partner's interest.

c. When the partner receives nonliquidating distributions.

d. All of the above.

LO 14-4 40. Maggie and Davis are equal partners in a partnership. When forming the partnership, Davis contributed a building with an FMV of $550,000 and a basis of $175,000. During the first year of operations, the partnership earned $170,000 in ordinary income and tax-exempt interest of $2,500. Assuming no special allocations, Davis's basis in the partnership interest at the end of the year is

a. $175,000.

b. $261,250.

c. $345,600.

d. $347,500.

LO 14-4 41. All of the following items usually affect the basis of a partnership interest *except*

a. Cash or property contributed.

b. Guaranteed payments.

c. Partnership income or loss items.

d. A partner's share of recourse liabilities.

LO 14-4 42. Partner Beth has a basis of $10,000 in a partnership at the beginning of the year. She receives $6,000 in cash distributions, her distributive share of income is $5,000, and she receives a land distribution with a basis of $8,000 (FMV $20,000). What is Beth's partnership interest basis at the end of the year?

a. $0.

b. $1,000.

c. $9,000.

d. $10,000.

LO 14-5 43. Molly, a 30% partner in XYZ Partnership, has a basis of $55,000 in her partnership interest. She receives a cash distribution of $54,000 at year-end. The distribution has what tax effect on Molly?

a. No gain or loss is recognized, and she has a $55,000 basis in her partnership interest.

b. No gain or loss is recognized, and she has a $1,000 basis in her partnership interest.

c. She has a recognized gain of $37,500 and a basis of $0 in her partnership interest.

d. She has a recognized gain of $55,000 and a basis of $0 in her partnership interest.

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LO 14-5 44. A partner recognizes a gain on a current distribution in which of the following situations?

a. When a partner receives a property distribution with a basis in excess of his or her basis.

b. When money or marketable securities are distributed in excess of the partner's basis.

c. When the current distribution triggers a precontribution gain.

d. Both *b* and *c*.

LO 14-5 45. Katlin contributes land to a partnership with a basis of $44,000 and an FMV of $56,000 in 2015. In 2017, when the FMV of the land is $58,000, the partnership distributes the land to Baily, another partner. Which of the following is true?

a. Katlin recognizes no gain or loss.

b. Baily recognizes a gain of $14,000.

c. Katlin recognizes a gain of $12,000.

d. Baily has a basis of $58,000 in the land.

LO 14-6 46. All of the following statements are correct concerning liquidating distributions of a partnership *except*

a. A loss can never be recognized.

b. A distribution of money in excess of basis causes a gain to be recognized.

c. Basis in a property distribution is allocated essentially the same as in a nonliquidating distribution.

d. Generally no gain or loss is recognized when the liquidating distribution consists only of property.

LO 14-6 47. On November 1, Ashton sells her interest in XYZ Partnership to Wayne for $200,000 cash and a release of liability of $30,000. Ashton's basis at the beginning of the year was $125,000 (including the $30,000 of liability). Ashton's share of income through November 1 was $45,000, and she received a $15,000 cash distribution earlier in the year. What are the tax consequences to Ashton of the sale of her partnership interest?

a. $0 tax effect.

b. $45,000 capital gain.

c. $75,000 capital gain.

d. $105,000 capital gain.

Problems

All applicable problems are available with ***Connect***©

LO 14-1 48. Denise contributes the following assets to a partnership in exchange for a 25% partnership interest:

	FMV	Basis
Cash	$20,000	$20,000
Office equipment	12,000	5,000
Auto	20,000	6,000

What is Denise's beginning basis in her partnership interest?

page 14-39

LO 14-1 49. On June 1 of the current year, Patti contributes equipment with a $45,000 basis and a $35,000 FMV in exchange for a partnership interest. She purchased the equipment three years ago.

a. What is Patti's basis in her partnership interest?

b. What is Patti's holding period of her partnership interest?

c. What is the basis of the equipment in the hands of the partnership?

d. What is the holding period of the equipment in the hands of the partnership?

e. How will the partnership depreciate the equipment in the year of contribution?

LO 14-1, 14-4 50. Dennis, Suzy, and Katherine form a partnership. Dennis and Suzy give equipment and a building, respectively. Katherine agrees to perform all of the accounting and office work in exchange for a 10% interest.

	FMV	Basis	Partnership Percentage
Dennis's equipment	$100,000	$10,000	45%
Suzy's building	100,000	45,000	45
Katherine's services	–0–	–0–	10

a. Do any of the partners recognize any gain? If so, how much and why?

b. What is the basis for each partner in his or her partnership interest?

c. What is the basis to the partnership of each asset?

LO 14-1, 14-4 51. Moe, Johnny, and Raymond form a partnership and contribute the following assets:

	FMV	Basis	Partnership Percentage
Moe's inventory	$ 50,000	$10,000	33.3%
Johnny's building	110,000	80,000	33.3
Raymond's cash	50,000	50,000	33.3

Johnny's building has a mortgage of $60,000, which the partnership assumes.

a. Do any of the partners recognize any gain? If so, how much and why?

b. What is the basis for each partner in his partnership interest?

c. What is the basis to the partnership in each asset?

d. How would your answer change with respect to Johnny if the basis in the building were $45,000?

LO 14-2 52. Barry and Kurt are equal partners in the BK Partnership. Barry receives a guaranteed payment of $55,000. In addition to the guaranteed payment, Barry withdraws $10,000 from the partnership. The partnership has $24,000 in ordinary income during the year.

a. How much income must Barry report from BK Partnership?

b. What is the effect of the distribution on Barry's partnership basis?

LO 14-2 53. Kerry is a partner in the Kerry, Davis, Smith & Jones Partnership. Kerry owned 25% from January 1, 2017, to June 30, 2017, when he bought Jones's 25% interest. He owned 50% for the rest of the year. The partnership had ordinary income of $146,000 and $15,000 in long-term capital gains. Barring any special allocations in a partnership agreement, what is Kerry's share of income?

LO 14-2, 14-3 54. Wade has a beginning basis in a partnership of $23,000. His share of income and expense from the partnership consists of the following amounts:

Ordinary income	$43,000
Guaranteed payment	12,000
Long-term capital gain	15,500
§ 1231 gain	4,300

Charitable contributions	2,000
§ 179 expense	18,000
Cash distribution	6,000

a. What is Wade's self-employment income?

b. Calculate Wade's basis at the end of the year.

LO 14-2, 14-3 55. Bryan and Gayle are equal partners in BG Partnership. The partnership reports the following items of income and expense:

Ordinary income from operations	$13,000
Interest income	5,000
Long-term capital gains	23,000
§ 179 expense	55,000
Charitable contributions	3,000

page 14-41

a. Which of these items are considered separately stated items? On what form will these items be reported to the partners?

b. Where will these amounts be reported by the partners?

LO 14-4, 14- 56. Kim has a basis in her partnership interest of $12,000 when she

5 receives a distribution from the partnership of $6,000 cash and equipment with a basis of $8,000 ($12,000 FMV).

a. How much gain or loss must Kim recognize on the distribution?

b. What is Kim's ending partnership basis?

c. What is Kim's basis in the equipment?

LO 14-4, 14-5 57. Zach contributed land with an FMV of $25,000 and a basis of $14,000 to a partnership on April 5, 2011. On June 6, 2017, the partnership distributed the land to Art, a partner in the same partnership. At distribution, the land had an FMV of $29,000.

a. What is the effect of the distribution to Zach, if any?

b. What is the effect of the distribution to Art?

LO 14-5 58. Roberto has a basis of $6,000 in a partnership at the beginning of the year. He receives $7,000 in cash distributions, his distributive share of income is $3,500, and he receives a land distribution with a basis of $6,000 (FMV $12,000).

a. Is Roberto required to recognize any gain? If so, how much is the gain?

b. What is Roberto's basis in the land?

c. What is Roberto's ending basis in his partnership interest?

page 14-42

LO 14-5 59. Rhonda has a basis of $8,000 in a partnership at the beginning of the year. She receives $12,000 in cash distributions, and her distributive share of income is $2,500.

a. Is Rhonda required to recognize any gain? If so, how much?

b. What is Rhonda's ending basis in her partnership interest?

LO 14-6 60. Rebecca has a $40,000 basis in her partnership interest when she receives liquidating distributions from the partnership. She receives cash of $24,000 and equipment with a $12,000 basis to the partnership. What are the tax consequences of the liquidating distributions to Rebecca?

LO 14-6 61. Calvin purchased a 40% partnership interest for $43,000 in February 2015. His share of partnership income in 2015 was $22,000, in 2016 was $25,000, and in 2017 was $12,000. He made no additional contributions to or withdrawals from the partnership. On December 18, 2017, Calvin sold his partnership interest for $103,000. What is his gain or loss on the sale of his partnership interest?

Tax Return Problems

All applicable tax return problems are available with ***Connect***©

Tax Return Problem 1

Paul and Wayne equally own PW Partnership. Paul’s basis was $30,000 and Wayne’s basis was $22,000 at the beginning of the year. PW Partnership had the following income and expense items:

Sales	$330,000
Cost of goods sold	220,000
Guaranteed payment to Paul	40,000
Rent expense	24,000
Depreciation	33,000
Interest expense	4,000
Tax-exempt income	3,000
Health insurance premiums for Paul	3,600
Health insurance premiums for Wayne	3,600

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Prepare page 1 and page 4 of Form 1065—ordinary income and separately stated items for the partnership.

Calculate Paul’s basis in his partnership interest.

Calculate Wayne’s basis in his partnership interest.

Tax Return Problem 2

Phil Williams and Liz Johnson are 60% and 40% partners, respectively, in Williams & Johnson Partnership. Their beginning basis is $33,000 for Phil and $31,000 for Liz. The partnership had the following activity during the year:

Income	$336,123
Interest income	1,259
Dividend income (qualified)	4,586
Long-term capital gains	13,458
Total revenue	$355,426
Expenses	
Salaries and wages (nonpartners)	$ 47,000
Guaranteed payments	
Williams	75,000
Johnson	50,000
Depreciation (MACRS—includes $9,000 § 179 expense)	41,888
Interest expense	5,220
Taxes and licenses	15,548
Meals and entertainment (100%)	15,257
Auto	5,254
Insurance (nonpartner health)	6,000
Accounting and legal	2,800
Repairs	1,200
Charitable contributions	2,500
Payroll penalties	500
Total expenses	$268,167
Net income	$ 87,259

Calculate the ordinary income for the partnership and prepare page 1 of Form 1065.

Prepare page 4 of Form 1065.

What is the ending basis for Phil Williams?

What is the ending basis for Liz Johnson?

We have provided selected filled-in source documents that are available in *Connect.*

[1] IRC § 721.

[2] IRC § 722.

[3] IRC § 723.

[4] IRC § 1223.

[5] If a mixture of capital assets and ordinary assets is contributed to a partnership, the holding period of the partnership interest should be fragmented into interests with different holding periods. This is an issue only when the partnership interest is disposed of within a year of contribution. See *Aliber v. Commissioner* for more information [52 TCM 1316 (1987)].

[6] The inventory maintains its inventory characteristic (ordinary income property) for five years even if the partnership does not hold it out for sale to customers; see IRC § 724(b).

[7] Reg. § 1.721-1(b).

[8] IRC § 752. The term *money contribution* is used in place of cash *contribution* because the partner is not actually contributing cash but is assuming a liability. However, the effect on basis is the same.

[9] IRC § 731.

[10] IRC § 707(c).

[11] This is not always the case. One of the benefits of the partnership form is flexibility in the allocations. Allocations are based on the partnership agreement, and as long as the agreement has substantial economic effect, the allocations can vary. *Substantial economic effect* basically means that tax minimization is not the only reason for the allocation. Complete coverage of substantial economic effect is beyond the scope of this text.

[12] Rental of real estate may be included in self-employment income if the property is held for sale to customers in the course of a trade or business as a real estate dealer or if the rental income is for rentals for which service is rendered to the occupants (such as a bed and breakfast).

[13] IRC § 705(a).

[14] One instance in which this is not the case occurs when a partner receives a capital interest for services to the partnership. Income is recognized as a guaranteed payment but no cash payment is made. The partner's basis is increased in this instance.

[15] IRC § 731.

[16] Remember that *money* in this case refers to cash distributions and the release of liabilities.

[17] IRC § 737.

[18] IRC § 741.

[19] See IRC § 732(a) for the basis and IRC § 735(b) for the holding period.

[20] This is assuming there is no triggered precontribution gain.

[21] Of course, a partnership interest could be disposed of through inheritance or by gift, but these disposals have limited income tax effects to the partner. There may be estate tax issues or gift tax considerations, but these are beyond the scope of this text.

[22] Reg. § 1.732-1(c).

[23] IRC § 751.

[24] Typically a cash basis partnership will have a zero basis in accounts receivable because income is not recognized until the partnership collects the cash.

Chapter Fifteen

Corporate Taxation

One legal form under which a business can operate is the corporate form. From a tax perspective, a corporation can be a C corporation or an S corporation, both designations derived from the applicable Internal Revenue Code (IRC) subsection. In this chapter, we introduce the tax rules associated with both corporate forms.

Learning Objectives

When you complete this chapter, you should understand the following learning objectives (LO):

LO 15-1 Describe corporate formation and filing requirements.

LO 15-2 Calculate corporate and shareholder basis.

LO 15-3 Determine corporate taxable income and tax liability.

LO 15-4 Explain the tax rules for transactions with shareholders.

LO 15-5 Prepare Schedules L, M-1, and M-3.

LO 15-6 Discuss other corporate issues.

LO 15-7 Know the rules for tax treatment of Subchapter S corporations.

INTRODUCTION

Businesses can choose to operate using a number of different legal

structures, the most common of which are sole proprietorships, partnerships, regular corporations (called *C corporations*), and *Subchapter S corporations*. The *C* and *S* designations come from Subchapter C and Subchapter S of the Internal Revenue Code, where much of the tax law pertaining to these two entities is found.

The tax treatment of each of these structures differs, sometimes markedly so. We discussed sole proprietorships in Chapter 6 and partnerships in Chapter 14. In this chapter, we discuss C corporations and S corporations. In short, C corporations are taxed as a separate legal entity, and S corporations are taxed in a manner similar to a partnership.

CORPORATE FORMATION AND FILING REQUIREMENTS

LO 15-1

Organization

An individual or group of individuals can choose to operate a business as a *corporation,* which is a legal entity. Although rules vary slightly from state to state, the general procedure is as follows. First, the individual(s) or other entities that form the corporation (called the *incorporators*) file articles of incorporation and bylaws with the appropriate agency in the state in which they want to become incorporated. Generally the appropriate state agency is the Secretary of State, the Corporation Commission, or something similar. The state agency then issues to the corporation a charter or comparable document indicating that the corporate entity exists and that it can operate in accordance with its corporate documents.

page 15-2

After incorporation, states require corporations to file an annual report and pay a fee. This report and fee indicate to the state that the corporation remains active. When corporations decide to terminate their activities, many states require the corporation to file a notification.

Large C corporations must use the accrual basis of accounting.[1] Corporations with average annual gross receipts of $5 million or less can use the cash basis. Corporations that maintain inventory for sale to customers must use the accrual method of accounting at least for their

sales and cost of goods sold.[2] Corporations must choose their method of accounting when they file their first return. If the corporation wishes to change its method of accounting subsequent to its first year of operation, it must file for permission to make the change.

C corporations can choose an accounting period when they file their first tax return without approval of the IRS. Often newly formed corporations do not give much thought to an appropriate fiscal year-end. Corporations should consider a fiscal year-end that occurs during a time of the year other than their busiest time. For example, the fiscal year of many retailers ends on January 31. Disney's fiscal year-end is September 30, right after its busy summer season.

Filing Requirements

Corporations must file an annual Form 1120 (see Exhibit 15-1).[3] Filing is required even if the corporation did not have taxable income.

Beginning in 2016, the due date for corporate tax returns depends on the fiscal year of the corporation. For corporations operating a fiscal year that ends on June 30, the return is due on September 15, which is the 15th day of the third month after year end. A seven-month extension is permitted from that date (to April 15) for a maximum period of 10.5 months.[4]

For all other corporations, the initial filing date is the 15th day of the fourth month after the fiscal year end. So, for example, a calendar year corporate return is due on April 15 and a corporation with a fiscal year that ends on February 28 is required to file by June 15. A six-month extension is allowed from the original due date (for a total of 10.5 months).

CONCEPT CHECK 15-1—LO 15-1

1. A corporation can use either the cash or accrual method of accounting. True or false?
2. Corporate tax returns are due __________ if no extension is requested.
3. The tax year of a corporation must end on December 31. True or false?

BASIS
LO 15-2

As we noted when discussing partnership taxation in Chapter 14, basis involves two critical issues: (1) the basis of the ownership interest (stock in the case of a corporation) in the hands of the owner and (2) the basis to the corporation of property exchanged for the ownership interest.

When a corporation is formed, individuals purchase or otherwise acquire stock in the entity. The stock acquisition is, in effect, an exchange of cash or property for stock and can be a taxable transaction. If the transferors (that is, the shareholders who are forming the corporation) control 80% or more of the corporation immediately after the exchange, the exchange is generally tax-free.[5]

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Form **1120**

Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 2017 or tax year beginning ...., 2017, ending ...., 20 ....

▶ Go to *www.irs.gov/Form1120* for instructions and the latest information.

OMB No. 1545-0123

2017

A Check if:
1a Consolidated return (attach Form 851) ☐
b Life/nonlife consolidated return ☐
2 Personal holding co. (attach Sch. PH) ☐
3 Personal service corp. (see instructions) ☐
4 Schedule M-3 attached ☐

TYPE OR PRINT

Name

Number, street, and room or suite no. If a P.O. box, see instructions.

City or town, state, or province, country, and ZIP or foreign postal code

B Employer identification number

C Date incorporated

D Total assets (see instructions)
$

E Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change

Income	1a	Gross receipts or sales	1a	
	b	Returns and allowances	1b	
	c	Balance. Subtract line 1b from line 1a	1c	
	2	Cost of goods sold (attach Form 1125-A)	2	
	3	Gross profit. Subtract line 2 from line 1c	3	
	4	Dividends (Schedule C, line 19)	4	
	5	Interest	5	
	6	Gross rents	6	
	7	Gross royalties	7	
	8	Capital gain net income (attach Schedule D (Form 1120))	8	
	9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	9	
	10	Other income (see instructions—attach statement)	10	
	11	**Total income.** Add lines 3 through 10 ▶	11	
Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (see instructions—attach Form 1125-E) ▶	12	
	13	Salaries and wages (less employment credits)	13	
	14	Repairs and maintenance	14	
	15	Bad debts	15	
	16	Rents	16	
	17	Taxes and licenses	17	
	18	Interest	18	
	19	Charitable contributions	19	
	20	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	20	
	21	Depletion	21	
	22	Advertising	22	
	23	Pension, profit-sharing, etc., plans	23	
	24	Employee benefit programs	24	
	25	Domestic production activities deduction (attach Form 8903)	25	
	26	Other deductions (attach statement)	26	
	27	**Total deductions.** Add lines 12 through 26 ▶	27	
	28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11	28	
	29a	Net operating loss deduction (see instructions)	29a	
	b	Special deductions (Schedule C, line 20)	29b	
	c	Add lines 29a and 29b	29c	
Tax, Refundable Credits, and Payments	30	**Taxable income.** Subtract line 29c from line 28. See instructions	30	
	31	Total tax (Schedule J, Part I, line 11)	31	
	32	Total payments and refundable credits (Schedule J, Part II, line 21)	32	
	33	Estimated tax penalty. See instructions. Check if Form 2220 is attached ▶ ☐	33	
	34	**Amount owed.** If line 32 is smaller than the total of lines 31 and 33, enter amount owed	34	
	35	**Overpayment.** If line 32 is larger than the total of lines 31 and 33, enter amount overpaid	35	
	36	Enter amount from line 35 you want **Credited to 2018 estimated tax** ▶ **Refunded** ▶	36	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer   Date   ▶ Title

May the IRS discuss this return with the preparer shown below? See instructions. ☐ Yes ☐ No

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

For Paperwork Reduction Act Notice, see separate instructions.   Cat. No. 11450Q   Form **1120** (2017)

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Form 1120 (2017) Page 2

Schedule C	Dividends and Special Deductions (see instructions)	(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations		see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6	Dividends from less-than 20%-owned foreign corporations and certain FSCs		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	**Total.** Add lines 1 through 8. See instructions for limitation			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on line 3, 6, 7, 8, 11, or 12			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on line 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	**Total dividends.** Add lines 1 through 17. Enter here and on page 1, line 4 ▶			
20	**Total special deductions.** Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶			

Form **1120** (2017)

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Schedule J Tax Computation and Payment (see instructions)

Part I–Tax Computation

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)) See instructions ▶ ☐		
2	Income tax. Check if a qualified personal service corporation. See instructions . ▶ ☐		2
3	Alternative minimum tax (attach Form 4626)		3
4	Add lines 2 and 3		4
5a	Foreign tax credit (attach Form 1118)	5a	
b	Credit from Form 8834 (see instructions)	5b	
c	General business credit (attach Form 3800)	5c	
d	Credit for prior year minimum tax (attach Form 8827)	5d	
e	Bond credits from Form 8912	5e	
6	**Total credits.** Add lines 5a through 5e		6
7	Subtract line 6 from line 4		7
8	Personal holding company tax (attach Schedule PH (Form 1120))		8
9a	Recapture of investment credit (attach Form 4255)	9a	
b	Recapture of low-income housing credit (attach Form 8611)	9b	
c	Interest due under the look-back method—completed long-term contracts (attach Form 8697)	9c	
d	Interest due under the look-back method—income forecast method (attach Form 8866)	9d	
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e	
f	Other (see instructions—attach statement)	9f	
10	**Total.** Add lines 9a through 9f		10
11	**Total tax.** Add lines 7, 8, and 10. Enter here and on page 1, line 31		11

Part II–Payments and Refundable Credits

12	2016 overpayment credited to 2017		12
13	2017 estimated tax payments		13
14	2017 refund applied for on Form 4466		14 ( )
15	Combine lines 12, 13, and 14		15
16	Tax deposited with Form 7004		16
17	Withholding (see instructions)		17
18	**Total payments.** Add lines 15, 16, and 17		18
19	Refundable credits from:		
a	Form 2439	19a	
b	Form 4136	19b	
c	Form 8827, line 8c	19c	
d	Other (attach statement—see instructions).	19d	
20	**Total credits.** Add lines 19a through 19d		20
21	**Total payments and credits.** Add lines 18 and 20. Enter here and on page 1, line 32		21

Schedule K Other Information (see instructions)

		Yes	No
1	Check accounting method: a ☐ Cash b ☐ Accrual c ☐ Other (specify) ▶		
2	See the instructions and enter the:		
a	Business activity code no. ▶		
b	Business activity ▶		
c	Product or service ▶		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation ▶		
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G)		
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G)		

Form **1120** (2017)

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Schedule K **Other Information** *(continued from page 3)*

		Yes	No
5	At the end of the tax year, did the corporation:		
a	Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on **Form 851,** Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below		

(i) Name of Corporation	**(ii)** Employer Identification Number (if any)	**(iii)** Country of Incorporation	**(iv)** Percentage Owned in Voting Stock

		Yes	No
b	Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below		

(i) Name of Entity	**(ii)** Employer Identification Number (if any)	**(iii)** Country of Organization	**(iv)** Maximum Percentage Owned in Profit, Loss, or Capital

		Yes	No
6	During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? See sections 301 and 316		
	If "Yes," file **Form 5452,** Corporate Report of Nondividend Distributions. See the instructions for Form 5452.		
	If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.		
7	At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of the total voting power of all classes of the corporation's stock entitled to vote or at least 25% of the total value of all classes of the corporation's stock?		
	For rules of attribution, see section 318. If "Yes," enter:		
	(a) Percentage owned ▶ ______________ and **(b)** Owner's country ▶ ______________		
	(c) The corporation may have to file **Form 5472,** Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ ______________		
8	Check this box if the corporation issued publicly offered debt instruments with original issue discount . . . . . . ▶ ☐		
	If checked, the corporation may have to file **Form 8281,** Information Return for Publicly Offered Original Issue Discount Instruments.		
9	Enter the amount of tax-exempt interest received or accrued during the tax year ▶ $ ______________		
10	Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ ______________		
11	If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here . . . . . . ▶ ☐		
	If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.		
12	Enter the available NOL carryover from prior tax years (do not reduce it by any deduction reported on page 1, line 29a.) . . . . ▶ $ ______________		
13	Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year **and** its total assets at the end of the tax year less than $250,000?		
	If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year ▶ $ ______________		
14	Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement? See instructions . . .		
	If "Yes," complete and attach Schedule UTP.		
15a	Did the corporation make any payments in 2017 that would require it to file Form(s) 1099?		
b	If "Yes," did or will the corporation file required Forms 1099?		
16	During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock?		
17	During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction?		
18	Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than $1 million?		
19	During the corporation's tax year, did the corporation make any payments that would require it to file Forms 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474) of the Code?		

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Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
	Assets	(a)	(b)	(c)	(d)
1	Cash				
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts	( )		( )	
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach statement)				
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach statement)				
10a	Buildings and other depreciable assets				
b	Less accumulated depreciation	( )		( )	
11a	Depletable assets				
b	Less accumulated depletion	( )		( )	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	( )		( )	
14	Other assets (attach statement)				
15	Total assets				
	Liabilities and Shareholders' Equity				
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)				
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)				
22	Capital stock: a Preferred stock				
	b Common stock				
23	Additional paid-in capital				
24	Retained earnings—Appropriated (attach statement)				
25	Retained earnings—Unappropriated				
26	Adjustments to shareholders' equity (attach statement)				
27	Less cost of treasury stock		( )		( )
28	Total liabilities and shareholders' equity				

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income per Return**

Note: The corporation may be required to file Schedule M-3. See instructions.

1	Net income (loss) per books		7	Income recorded on books this year not included on this return (itemize): Tax-exempt interest $	
2	Federal income tax per books				
3	Excess of capital losses over capital gains				
4	Income subject to tax not recorded on books this year (itemize)		8	Deductions on this return not charged against book income this year (itemize):	
5	Expenses recorded on books this year not deducted on this return (itemize):			a Depreciation $	
a	Depreciation $			b Charitable contributions $	
b	Charitable contributions $				
c	Travel and entertainment $		9	Add lines 7 and 8	
6	Add lines 1 through 5		10	Income (page 1, line 28)—line 6 less line 9	

Schedule M-2 **Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)**

1	Balance at beginning of year		5	Distributions: a Cash	
2	Net income (loss) per books			b Stock	
3	Other increases (itemize)			c Property	
			6	Other decreases (itemize)	
			7	Add lines 5 and 6	
4	Add lines 1, 2, and 3		8	Balance at end of year (line 4 less line 7)	

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EXHIBIT 15-1

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1120. Washington, DC: 2017.

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EXAMPLE 15-1

Marty and Sara decide to form Boone Company. Marty transfers $1,000 cash in exchange for 100 shares of stock, and Sara transfers a bond with a fair market value (FMV) of $1,000 (basis of $800) for 100 shares. They are the only two shareholders of Boone Company. Because they control 80% or more of Boone immediately after the exchange, the transaction is tax-free.

Even when the 80% rule is met, a stockholder could be required to recognize a gain in two cases. The first is when the individual transfers property subject to a liability and the relief of liability is greater than the transferor's basis in the property. The gain is equal to the excess of liability over basis.

EXAMPLE 15-2

Gina transfers an apartment building to GGG Company in exchange for all of the stock in the company. The building has a basis of $100,000, an FMV of $500,000, and debt (assumed by the company) of $300,000. Even though Gina controls more than 80% of the company immediately after the exchange, the transaction is taxable because she has debt relief in excess of basis. She has a gain of $200,000 (relief of debt of $300,000 minus building basis of $100,000).

The second case involves an individual who contributes cash or property and receives, in return, stock plus other cash or property (this extra cash or property is called *boot,* discussed in an earlier chapter). In this case, the taxable gain is the lower of the FMV of the property received or the realized gain (the FMV of property contributed less the tax basis of the property contributed).

EXAMPLE 15-3

Ernie receives all the stock of EBU Company in exchange for contributing a machine with a basis of $15,000 and an FMV of $25,000. Ernie also receives $3,000 cash from the company. The gain on transfer is $10,000 (the difference between the basis and FMV of the machine). The gain Ernie must report is $3,000, the lower of gain or cash received.

To the corporate entity, the basis of the cash or property received is equal to the basis in the hands of the shareholder plus any gain recognized by the shareholder. The basis of the stock in the hands of the shareholder is equal to the basis of the property contributed plus any gain recognized, minus any boot received (boot includes relief of liability). The amounts of inside and outside basis for the stockholders in each of the three previous examples are as follows:

	Reported Gain	Stock Basis to Shareholder (Outside)	Property Basis to Corporation (Inside)
Marty	$ –0–	$ 1,000	$ 1,000
Sara	–0–	800	800
Gina	200,000	–0–	300,000
Ernie	3,000	15,000	18,000

Shareholders do not recognize losses as a result of the formation of a corporation when the 80% test is met.

If an individual provides services in exchange for stock upon the formation of a corporation, the individual will recognize ordinary income equal to the FMV of the services.

Unless a C corporation stockholder increases or decreases his or her proportionate ownership (buys or sells stock), there is generally no adjustment to the outside basis over time.

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CONCEPT CHECK 15-2—LO 15-2

1. When forming a corporation, if the transferors control at least 80% of the corporate entity, the formation is generally tax-free. True or false?
2. The basis to the corporation of property received is equal to __________.
3. Arturo contributed land with an FMV of $100,000 and basis of $40,000 to a newly formed corporation in exchange for 90% of the stock. Arturo's basis in the stock is __________.

TAXABLE INCOME AND TAX LIABILITY

LO 15-3

Corporate taxable income is generally determined using the same operating rules as a trade or business that we discussed in Chapter 6. The general formula to determine corporate taxable income and tax liability follows. The line numbers pertain to Form 1120 in Exhibit 15-1.

Total gross receipts or sales (line 1c)
− Cost of goods sold (line 2)
Gross profit (line 3)
+ Interest, dividends, capital gains, other income (lines 4–10)
Total income (line 11)
− Ordinary and necessary trade or business expenses (lines 12–27)
Taxable income before special deductions (line 28)
− Net operating loss deduction (line 29a)
− Dividends received deduction (line 29b)
= Taxable income (line 30)
× Applicable tax rates
= Tax liability (line 31)
− Tax payments during the tax year and tax credits (line 32)
= Tax due with return (line 34) or refund (line 35)

In corporate taxation, the notion of Adjusted Gross Income (AGI) does not exist.

As mentioned, determination of corporate taxable income generally follows the trade or business rules discussed in Chapter 6. A few differences pertaining to corporations—capital gains and losses, charitable contributions, the dividends received deduction, and some miscellaneous differences—must be noted.

Capital Gains and Losses (Form 1120, line 8)

As we discussed in Chapter 7, individuals (or other noncorporate taxpayers) include capital gains and losses in income. If capital losses exceed capital gains, individuals recognize a net capital loss of up to $3,000 with any excess being carried forward indefinitely. C corporations are not permitted to report any net capital losses. Thus capital losses can only offset capital gains.[6] In other words, the amount on line 8 must be either positive or zero; it cannot be negative.

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Corporations are permitted to carry back excess capital losses three preceding years (starting with the earliest year) and then forward five years if any loss remains.[7] Corporations can use the carryback and carryforward amounts only against net capital gains in the years noted.

EXAMPLE 15-4

ABC Company, a C corporation, was formed in 2013 and reported net income in each year of its operation. The company had net capital gains and losses as follows:

2013	$ 7,000 gain
2014	10,000 gain
2015	1,000 gain
2016	5,000 gain
2017	21,000 loss

The 2017 capital loss must be carried back three years starting with the earliest year. Thus ABC Company will first apply the $21,000 loss from 2017 to tax year 2014, then to 2015, and finally to 2016. Because the total capital gains in those years were $16,000, ABC Company has a $5,000 capital loss to carry forward to tax years 2018 to 2022.

TAX YOUR BRAIN

Pirate Company was formed in 2012 and reported capital gains and losses, prior to any carryforwards and carrybacks, as follows:

2012	$ 2,000 loss
2013	7,000 gain
2014	10,000 gain
2015	16,000 loss
2016	5,000 gain
2017	14,000 loss

What is the proper tax treatment of the capital gain carryforwards and carrybacks, and what is the resulting net capital gain or loss for each year indicated?

ANSWER

Work from the oldest date to the present. The 2012 loss is carried forward to 2013 resulting in a $5,000 gain in 2013. In 2014, the $10,000 gain will be reported. In 2015, the $16,000 loss will be carried back first to 2013, eliminating the remaining $5,000 gain, and then to 2014, eliminating the $10,000 gain. A $1,000 loss carryforward then remains from 2015. This carryforward will be applied to 2016 resulting in a $4,000 gain in 2016. Finally, the 2017 loss will be carried back to the remaining 2016 gain, giving Pirate Company a $10,000 loss carryforward to be used starting in 2018 and expiring in 2022.

If a corporation carries back a capital loss, it files an amended return for the prior year(s) and will receive a refund.

The other major difference between individual and corporate taxation of capital gains pertains to tax rates. Individuals pay tax on net capital gains at a rate lower than for ordinary income. For corporations, net capital gains are included in income and are taxed at the marginal corporate rate.

Charitable Contributions

Corporations are permitted charitable contributions to qualified charitable organizations. The deduction is limited to 10% of taxable income before any of the following:

Charitable contributions.

Dividends received deduction (described next).

Net operating loss carryback.

Capital loss carryback.[8]

Any contributions in excess of the permitted amount are carried forward for five years, are added to the charitable contributions in that year, and are subject to the 10% limitation. In future years, current contributions are deducted first.[9]

EXAMPLE 15-5

Szabo Company reported $50,000 of taxable income before charitable contributions. The company had charitable contributions of $8,000. Szabo's charitable contributions are limited to $5,000 ($50,000 × 10%). Thus Szabo's taxable income will be $45,000, and its charitable contributions carryforward is $3,000.

In general, if a corporation contributes ordinary income property, the deduction is limited to the corporation's basis in the property.[10] Ordinary income property is property that, if sold, would produce a gain other than a long-term capital gain. An example is inventory held by a corporation.

Taxpayers use carryforward information to determine any charitable contributions limitation but ignore carryback information. In effect, taxpayers use all information available when the return is filed but do not make changes for information that could become available in the future.

Dividends Received Deduction

C corporations are permitted a tax deduction for a portion of the dividends they receive from other domestic corporations. The dividends received deduction (DRD) is a percentage of the dividend and varies, depending on the percentage ownership in the dividend-paying corporation:[11]

Ownership Percentage	Deduction Percentage
Less than 20%	70%
20% to less than 80%	80%
80% or more	100%

EXAMPLE 15-6

Duck Corporation owns 15% of Rose Company. Duck received a $10,000 dividend from Rose and is entitled to a $7,000 dividends received deduction. The deduction means that $3,000 of the dividend is included in Duck's taxable income. If Duck owned 40% of Rose, the DRD would have been $8,000, and only $2,000 of the dividend would have been taxable to Duck.

The DRD can be limited. If taxable income (before DRD or any capital

loss carryback) is between 100% of the dividend and 70% (or 80% as appropriate) of the dividend, the DRD is limited to taxable income multiplied by the appropriate percentage.

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EXAMPLE 15-7

Sylva Silverware owns 30% of Fredonia Flatware. Fredonia paid a $20,000 dividend to Sylva. Sylva's taxable income, before the DRD, was $50,000. Sylva's DRD is $16,000 ($20,000 × 80%).

EXAMPLE 15-8

Use the information from the previous example except that Sylva's taxable income, before the DRD, was $5,000. Sylva's taxable income is not between 80% of the dividend ($16,000) and 100% of the dividend ($20,000). Thus the DRD is not limited.

EXAMPLE 15-9

Use the information from Example 15-7 except that Sylva's taxable income before the DRD was $18,000. In this case, Sylva's taxable income is in the limitation area (between $16,000 and $20,000). Thus Sylva's DRD is limited to 80% of taxable income before the DRD, or $14,400 ($18,000 × 80%).

In Examples 15-7 through 15-9, if Sylva had owned less than 20% of Fredonia, the applicable percentage would have been 70% and the lower dollar limit for purposes of the limitation would have been $14,000 (the $20,000 dividend × 70%).

Other Differences

Except for closely held C corporations, the passive loss rules (refer to Chapter 13) do not apply to corporations.[12] A *closely held C corporation* is one in which more than 50% of the value of its outstanding stock is owned, directly or indirectly, by not more than five individuals.[13]

Corporations normally incur various organizational expenses at the time of legal formation. These costs can include legal fees, incorporation fees, and filing fees. In general, capitalized costs are deductible over their useful life. Because the life of a corporation is theoretically indefinite, organizational expenses are recorded as a nonamortizable asset and are not deductible. However, the IRC permits corporations to elect to deduct organizational expenses in an amount equal to the lower of (1) the amount of organizational expenses or (2) $5,000.[14] If total organizational expenses exceed $50,000, then the $5,000 amount is reduced to zero on a dollar-for-dollar basis. Thus, when organizational expenses exceed $55,000, no immediate deduction is permitted. Any remaining organizational expenses are deductible over a 180-month period beginning with the month the corporation begins business. Expenditures must be incurred before the end of the fiscal year in which the corporation begins business, and the election must be filed with the first tax return. Expenditures associated with issuing or selling stock are not deductible.

Organizational expenses are different from *start-up expenses,* which are incurred prior to the time the corporation begins to produce income. If the enterprise is operating as a business, the expenses would be deductible as ordinary and necessary business expenses. However, the business is not yet active and is not earning income; thus the expenses are not deductible and must be capitalized. Corporations can elect to treat the expenses as deferred expenses and deduct them initially and/or over a 180-month period in a manner similar to that described for organizational expenses.[15] The 180-month period begins in the month in which the active trade or business begins. The election must be filed with the tax return for the corporation's first year. The calculations and limitations are determined separately for organizational expenses and for start-up expenses.

Corporate Tax Rates

Once corporate taxable income is determined, the amount of tax liability can be calculated with reference to a tax rate table. Tax rates for C corporations[16] are as follows:

Corporate Tax Rates			
Taxable Income Over	But Not Over	The Tax Is	Of the Amount Over
$ –0–	$ 50,000	15%	$ –0–
50,000	75,000	$ 7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333	—	35% of taxable income	18,333,333

Corporate tax rates follow a progressive tax structure, but the rates "wobble around" as income increases. Technically, the tax rate for incomes between $75,000 and $10,000,000 is 34% and the rate above $10,000,000 is 35%.[17] However, the IRC also recaptures the benefit of reduced rates for those corporate taxpayers with higher incomes. In other words, a corporate taxpayer with $60,000 of taxable income pays tax of 15% on the first $50,000 and 25% on the remaining $10,000. A corporate taxpayer with taxable income of $60,000,000 does not get the benefit of lower rates and pays tax at a 35% flat rate on every dollar of income. The tax rate tables are structured to eliminate the benefit of the lower brackets.

EXAMPLE 15-10

Beaufort Company has taxable income of $1,200,000. Its tax liability is $408,000 (calculated as $113,900 + [($1,200,000 − $335,000) × 34%] = $408,000). You will get the same answer if you multiply taxable income by 34%.

Estimated Payments

A corporation must pay *estimated taxes*. The required annual payment is the lower of (1) 100% of the tax due for the year or (2) 100% of the tax due for the prior year.[18] Estimated payments can be made in four installments on the 15th day of the 4th, 6th, 9th, and 12th months of the corporation's fiscal year. For calendar year corporations, the due dates are April 15, June 15, September 15, and December 15. Estimated payments are reported on Form 1120, line 32.

Large corporations (those with taxable income in excess of $1 million in any of the three preceding years) cannot use the prior year tax safe harbor except for the first quarterly installment payment. These corporations must base the final three quarterly payments on their estimate

of current year tax due.

The corporate underpayment penalty is based on the same interest rate schedule used for individuals. The penalty is not deductible in any year.

Net Operating Losses

If a corporation has a net operating loss (NOL), it can carry the loss back two years and forward 20 years.[19] Alternatively, the corporation can affirmatively elect to waive the carryback period and only carry the loss forward.[20] The election is irrevocable for the tax year.

In general, a net operating loss occurs when the corporate entity has negative taxable income for the year.

TAX YOUR BRAIN

Under what circumstances would a corporation choose to forgo the carryback period for a net operating loss and elect to only carry the loss forward?

ANSWER

If tax rates will be higher in the future and if the corporation expects to earn money in the future, it may make sense to only carry the NOL forward. For example, if tax rates in prior years were 30% and are expected to be 40% in the future, the corporation would receive an additional 10 cents for each dollar of NOL if the loss were only carried forward.

CONCEPT CHECK 15-3—LO 15-3

1. Corporations follow the same tax rules for capital gains as do individuals. True or false?
2. The tax liability of a corporation with taxable income of $520,000 is

__________.

3. A corporation reported taxable income of $390,000 before charitable contributions. The corporation made charitable contributions of $50,000. Its permitted deduction for charitable contributions in the current tax year is __________.
4. Organizational expenses are automatically deductible over 180 months. True or false?
5. Corporate net operating losses from 2017 can be carried back __________ years and forward __________ years.

TRANSACTIONS WITH SHAREHOLDERS

LO 15-4

Dividends and Distributions

Corporations can pay cash or property (called *distributions*) to their shareholders. To the extent that distributions are from the earnings and profits of the corporation, the distribution is a *dividend*.[21] The corporation cannot deduct the cost of the dividend, and the shareholder reports taxable income in an amount equal to the fair market value of the property received.[22]

Earnings and profits (E&P) are conceptually similar to retained earnings except that they are calculated using tax law, not financial accounting standards.

Distributions paid in excess of earnings and profits are nontaxable to the extent of the stockholder's basis in her or his stock. The excess of a distribution over the stockholder's basis is treated as a capital gain (assuming the stock is a capital asset in the hands of the stockholder).[23]

If a corporation makes a distribution of property (not cash) that has a basis less than the fair market value (that is, appreciated property), the corporation is treated as selling the property at its fair market value. Thus the corporation recognizes a gain on the distribution of appreciated property.

EXAMPLE 15-11

Sasha received a $500 cash distribution from the E&P of Alpha Company. The dividend is fully taxable to Sasha.

EXAMPLE 15-12

Assume that Sasha's distribution was in the form of property with an FMV of $500 and a basis to Alpha Company of $400. Alpha will record a $100 gain. Sasha will report dividend income of $500.

EXAMPLE 15-13

Quad Company has E&P of $5,000. It makes a $6,000 cash distribution to Quincy, its sole shareholder. Assuming that Quincy has a basis in his stock of at least $1,000, he will report dividend income of $5,000 and a nontaxable distribution of $1,000. Quincy will reduce the basis of his stock by $1,000.

EXAMPLE 15-14

Use the information from Example 15-13. Assume that the basis of Quincy's stock is $200. In this case, he would report a dividend of $5,000, a nontaxable return of capital of $200, and a capital gain of $800. Quincy will also reduce the basis of his stock to zero.

The preceding discussion assumed that the distribution was made to shareholders on a pro rata basis. In other words, each shareholder receives a distribution proportionate to his or her ownership. Corporations can also make a non–pro rata distribution by which one or more stockholders receive a distribution that is not in proportion to their ownership percentage. If the distribution is in appreciated property, the corporation again has a deemed sale and gain based on FMV. The shareholder reports dividend income equal to the FMV of the cash or property received.

A shareholder may receive a distribution in full liquidation of her or his ownership interest. For example, a shareholder may sell all of her or his stock back to the corporation for cash or property. In such case, he or

she will have a capital gain or loss equal to the difference between the amount of the distribution and his or her basis in the stock.

Liquidation

A *corporate liquidation* occurs when a corporation decides to cease doing business and wind up its business affairs. The corporation pays debts and distributes remaining assets to shareholders. In the case of a complete liquidation, the corporation records all assets and liabilities at fair market value (with associated write-ups or write-downs). The shareholder reports a capital gain or loss equal to the difference between his or her basis in the stock and the FMV of the property received.

EXAMPLE 15-15

Tara received cash of $5,000 and other assets with an FMV of $7,000 as a result of the complete liquidation of Blue Corporation. Tara's basis in the stock of Blue was $10,000. Tara will report a return of capital (nontaxable) of $10,000 and a capital gain of $2,000.

CONCEPT CHECK 15-4—LO 15-4

1. Dividends are always taxable to a shareholder. True or false?
2. If a corporation pays a dividend in property, the stockholder will have a dividend equal to the corporate basis in the property. True or false?
3. A corporation has earnings and profits of $10,000 and makes a cash distribution to its sole shareholder in the amount of $11,000. The amount of taxable dividend to the shareholder is __________.

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SCHEDULES L, M-1, AND M-3

LO 15-5

Corporations must provide a beginning and ending balance sheet on Form 1120, Schedule L, as well as a reconciliation of book income to taxable income on Form 1120, Schedule M-1. See page 5 of Form 1120 in Exhibit 15-1 for both schedules. If a corporation's total receipts and total assets are both less than $250,000, the two schedules are not required.

Preparation of Schedule L is straightforward. It is prepared in accordance with the accounting method the corporation uses to keep its financial accounting records (accrual, cash, or mixed model).

Schedule M-1 can be more complex. It reconciles net income per books (line 1) with net income per the tax return (line 10). In effect, this schedule sets out all book/tax differences for the year regardless of whether they are permanent or temporary differences.

It is important to note that Schedule M-1 reconciles from net income per books (financial accounting net income) to net income per the tax law, *not* the other way around. Let's examine each of the lines individually.

Line 2: Federal income tax is an expense for book purposes but is not deductible for tax purposes. The amount of federal income tax expense must be added back to book income. This number is the federal income tax expense deduction on the income statement—*not* the tax expense on page 1 of the tax return.

Line 3: For book purposes, excess capital losses qualify as an expense. For tax purposes, recall that corporate capital losses are deductible only to the extent of capital gains. Thus any excess of capital losses over capital gains must be added back to book income.

Line 4: Certain income may be taxable but may be properly excluded from book income. Examples include the last month's rent collected at lease signing by a landlord or the installment sale income reported in full on the books in a prior year. These items must be added to book income to arrive at taxable income.

Line 5: Certain expenses can be recorded on the books but are not deductible on the tax return. These items include the difference between accelerated depreciation taken on the books and straight-line depreciation for taxes in the early years of an asset's life; the difference between the book and tax deductions if charitable contributions are limited on the tax return; and 50% of travel and entertainment expenses that are not deductible on the tax return.

Line 7: Some income is reported on the books but is not reported on the tax return. Examples include life insurance proceeds that can be

excluded for taxes but must be included for book purposes; prepayment of the last month of rent that will be included on the tax return at the beginning of the lease but on the books at the end of the lease; and interest from tax-exempt bonds.

Line 8: Deductions can be taken on the tax return but are not deductible in the financial records. Tax return depreciation in excess of book depreciation is an example. Another is the tax deduction for previously disallowed charitable contributions. These were deducted on the financial statements in a prior year.

EXAMPLE 15-16

Martin Company had book income of $50,000 for the year. It also had the following differences between book income and tax income:

Charitable contributions carryforward used in current year	$2,000
Excess depreciation on tax return	6,000

In addition, the company incurred $10,000 of travel and entertainment expense, only 50% of which is deductible for taxes. Martin Company's taxable income is $47,000 ($50,000 − $2,000 − $6,000 + [$10,000 × 50%]). A completed Schedule M-1 for Martin Company is shown in Exhibit 15-2.

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income per Return**
Note: Schedule M-3 required instead of Schedule M-1 if total assets are $10 million or more—see instructions

1	Net income (loss) per books	50,000	7	Income recorded on books this year not included on this return (itemize): Tax-exempt interest $	
2	Federal income tax per books				
3	Excess of capital losses over capital gains				
4	Income subject to tax not recorded on books this year (itemize):				
5	Expenses recorded on books this year not deducted on this return (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
a	Depreciation $		a	Depreciation $ 6,000	
b	Charitable contributions $		b	Charitable contributions $ 2,000	
c	Travel and entertainment $ 5,000				8,000
		5,000	9	Add lines 7 and 8	8,000
6	Add lines 1 through 5	55,000	10	Income (page 1, line 28)—line 6 less line 9	47,000

EXHIBIT 15-2

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1120. Washington, DC: 2017.

Corporations with total assets of $10 million or more must complete a

separate Schedule M-3. This schedule is, in effect, an extremely detailed reconciliation of book income with taxable income. Thus it is an expanded version of Schedule M-1 for large corporations. You can locate a Schedule M-3 on the IRS Web site (www.irs.gov).

CONCEPT CHECK 15-5—LO 15-5

1. Completion of Schedule L is required of all corporations. True or false?
2. Schedule M-1 reconciles book income to taxable income. True or false?
3. A corporation's depreciation expense is lower on the financial statements than it is on the tax return. Would this difference be a negative or positive item on Schedule M-1?

OTHER CORPORATE ISSUES INCLUDING ALTERNATIVE MINIMUM TAX
LO 15-6

Corporations can be part of a controlled group. The most common of these groups are parent– subsidiary groups or brother–sister groups, which we discuss here, in addition to corporate alternative minimum tax.

Parent–Subsidiary Groups

Parent–subsidiary groups are those for which a common parent corporation owns, directly or indirectly, at least 80% of one or more other corporations. The ownership can be one or more chains of corporations connected through stock ownership with the parent corporation.

EXAMPLE 15-17

Garner Corporation owns 90% of Harnett Company. The two corporations are part of a parent– subsidiary group. The relationship holds as long as Garner owns at least 80% of Harnett.

EXAMPLE 15-18

Garner Corporation also owns 95% of Iona Company. Iona, in turn, owns 85% of Jasper Corporation. The entire Garner/Iona/Jasper chain of corporations is part of a parent–subsidiary group.

Parent–subsidiary corporations can elect to file a consolidated tax return. Form 1122 is attached to the first consolidated return for each of the subsidiaries of the group.[24] An appropriate officer of the subsidiary signs the form, thereby consenting to be included in the group. All members of the parent–subsidiary group must be included. Subsidiaries no longer file separate returns. In subsequent years, Form 851, which is an affiliation schedule listing the corporations that are part of the consolidated return, is attached to the consolidated return.

Electing to file as a consolidated entity has certain advantages. For example, a consolidated return allows the entity to offset losses from one corporation against profits of another. In addition, profits from intercompany sales are deferred. There are potential disadvantages as well. The election is binding on future tax years, losses on intercompany sales cannot be immediately recognized, and elections made by the parent are binding on all subsidiaries.

Brother–Sister Groups

A *brother–sister group* may exist if five or fewer persons own two or more corporations. The group exists if both of the following tests are met:

Total ownership test: The shareholder group owns stock representing at least 80% of the voting shares of stock or at least 80% of the total value of all shares.

Common ownership test: The shareholder group has common (identical) ownership of more than 50% of the voting power or more than 50% of the value of all shares.

At first glance, the tests seem to be the same with different percentages, but such is not the case. The 80% test examines ownership of

an individual corporation. The 50% test, in effect, is based on the smallest common percentage across all of the corporations evaluated.

EXAMPLE 15-19

Three individuals have ownership interests in four different corporations as follows:

	Corporations				Identical Ownership
	A	B	C	D	
Reed	60%	20%	30%	30%	20%
Smith	30	65	30	40	30
Thomas	10	15	40	20	10
Totals	100%	100%	100%	90%	60%

The Identical Ownership column represents the smallest number reading across the column. In other words, it is the identical ownership across all of the corporations. So, for example, Reed owns at least 20% of each of the corporations.

The total ownership test is met because the three individuals own at least 80% of each of the four corporations (in this example for corporations A, B, and C, they actually own all the stock). The common ownership test is met because the common (identical) ownership is more than 50% (it is 60% in this example). Thus the four corporations are all part of a brother–sister group.

TAX YOUR BRAIN

In Example 15-19, if Reed sold half of her ownership in Corporation B to an unrelated third party, would the corporations remain as a brother–sister group?

ANSWER

No. By reducing her ownership in Corporation B to 10% of the total, Reed now has an identical common ownership across the four corporations of 10%. Thus the sum of the common ownership for all three individuals is exactly 50%. The common ownership test must be more than 50%. Thus the entities are no longer a brother–sister group.

One way to think about the two tests is that the 80% test is a "vertical test" (does the group own at least 80% of a specific individual corporation?) whereas the 50% test is a "horizontal test" (what is the smallest percentage that an individual owns across the various corporations?).

Corporations within a brother–sister group continue to file individual tax returns. However, the IRS realizes that the common control within a brother–sister group can result in income or expense being inappropriately allocated between members of the group. Thus the IRS has the authority to reallocate the income, deductions, and credits of the related corporations "in order to prevent the evasion of taxes or clearly reflect the income" of the individual corporations within the group.[25]

For purposes of determining corporate tax brackets, the accumulated earnings credit, and the minimum tax exemption, a controlled group is determined only with reference to the common ownership test. In all other cases, both tests are used.

Corporate Alternative Minimum Tax

Corporations are subject to a corporate alternative minimum tax (AMT).[26] The tax is calculated in a manner similar to AMT for an individual. In general, the corporation starts with regular taxable income, adds or subtracts adjustments, adds tax preference items, subtracts an exemption amount, and multiplies the resulting AMT base by a 20% AMT rate.

Most tax preference items are similar to those for individuals. An additional corporate preference item is for adjusted current earnings (ACE). The ACE adjustment is 75% of the difference between ACE and unadjusted alternative minimum taxable income. In short, ACE is the economic income of the corporation; it takes into account all of the corporation's inflows and outflows (including nontaxable and nondeductible items). The ACE adjustment can be very complex and is beyond the scope of this text.

The AMT exemption amount is $40,000 for corporations with AMT income of $150,000 or less.[27] The exemption is reduced by 25 cents for each dollar that AMT income exceeds $150,000. Thus the exemption is totally phased out at AMT income levels of $310,000 or more.

Small corporations are not subject to the AMT.[28] A *small corporation* is one that has average annual gross receipts of $7,500,000 or less for each of the preceding three tax years. Newly formed corporations are exempt from the AMT in the first year of existence and continue to be exempt from the AMT for the first three years if average annual gross receipts are less than $5 million.

EXAMPLE 15-20

Manteo Company has taxable income of $200,000 and is not a small corporation. It has a regular tax liability of $61,250. The company has $120,000 of tax preferences. Manteo's AMT is calculated as follows:

Regular taxable income	$200,000
Tax preferences	120,000
AMT income	320,000
Exemption (AMT income exceeds $310,000)	–0–
AMT base	320,000
Times tax rate	× 20%
AMT	64,000
Less: Regular corporate tax	61,250
Corporate AMT due	$ 2,750

CONCEPT CHECK 15-6—LO 15-6

1. To be considered a parent–subsidiary group, the parent corporation must own, directly or indirectly, at least __________ percent of the subsidiary corporation.
2. A brother–sister group may exist if __________ or fewer persons own two or more corporations.
3. For AMT purposes, the corporate exemption amount is $__________.

SUBCHAPTER S CORPORATIONS

LO 15-7

General

A Subchapter S corporation is a "regular" corporation that has elected to be taxed under the provisions of Subchapter S of the IRC.[29] In effect, a Subchapter S (Sub S) corporation is a corporation for legal purposes but is taxed in a manner similar to a partnership. Thus the shareholders (not the corporation) are taxed based on their proportionate share of net income and separately stated items.

Sub S corporations file their annual tax returns on Form 1120S (see Exhibit 15-3). Tax returns for S corporations are due on the 15th day of the third month after the end of the fiscal year (March 15 for a calendar year Sub S corporation). A six-month extension is permitted.

Subchapter S Election

A corporation must affirmatively elect to be taxed as a Subchapter S corporation. The corporation must be a qualifying small business corporation that meets *all* of the following characteristics:[30]

Be a domestic corporation.

Have 100 or fewer shareholders who are all individuals, estates, and certain trusts.[31]

Have only one class of stock.

Have shareholders who are U.S. citizens or resident aliens.

For the election to be valid, it must be made on Form 2553, must be signed by all shareholders, and must be filed on a timely basis.[32] If the corporation wants the election to be valid for the current year, Form 2553 must be filed either in the prior fiscal year or before the 15th day of the third month of the current year. Thus elections filed after the 2.5-month deadline are effective for the following year.

The Sub S election is valid until it is statutorily terminated or voluntarily revoked. The election is statutorily terminated if the corporation fails to meet the qualifications to be a Sub S corporation. For example, once the corporation has more than 100 shareholders, the election will be terminated. For statutorily terminated elections, the termination is effective on the day the terminating event occurs.

The corporation can choose to voluntarily revoke the election. If shareholders owning a majority of the voting stock consent, in writing, to

revoke the election, the Sub S status will be terminated.[33] If the revocation is made (and filed) during the first 2.5 months of the tax year, the revocation will be effective as of the beginning of the year. If the revocation is made subsequent to that date, the Sub S status will be terminated as of the beginning of the following year. Shareholders can state a revocation date on or after the date the voluntary revocation is filed, and the revocation will be effective on the selected date.

In most circumstances, if an S corporation loses its status because of statutory or voluntary revocation, the corporation must wait five years before reelecting Sub S status.

Taxable Income and Separately Stated Items

Generally items of income and expense are the same for a C corporation as for an S corporation.

As mentioned, a Sub S corporation is taxed as though it were a partnership. In other words, the shareholders, not the corporation, pay tax on the Subchapter S income. Unlike a partnership, a Sub S corporation can amortize organizational expenses and must recognize gains, but not losses, on distributions of property to shareholders. The dividends received deduction does not apply to a Sub S corporation.

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Form **1120S**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return for an S Corporation

▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.

▶ Go to *www.irs.gov/Form1120S* for instructions and the latest information.

OMB No. 1545-0123

2017

For calendar year 2017 or tax year beginning , 2017, ending , 20

A S election effective date

B Business activity code number (see instructions)

C Check if Sch. M-3 attached

TYPE OR PRINT — Name; Number, street, and room or suite no. If a P.O. box, see instructions.; City or town, state or province, country, and ZIP or foreign postal code

D Employer identification number

E Date incorporated

F Total assets (see instructions) $

G Is the corporation electing to be an S corporation beginning with this tax year? ☐ Yes ☐ No If "Yes," attach Form 2553 if not already filed

H Check if: (1) ☐ Final return (2) ☐ Name change (3) ☐ Address change (4) ☐ Amended return (5) ☐ S election termination or revocation

I Enter the number of shareholders who were shareholders during any part of the tax year ▶

Caution: Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

DRAFT AS OF August 10, 2017 DO NOT FILE

Section	Line	Description		
Income	1a	Gross receipts or sales	1a	
	b	Returns and allowances	1b	
	c	Balance. Subtract line 1b from line 1a		1c
	2	Cost of goods sold (attach Form 1125-A)		2
	3	Gross profit. Subtract line 2 from line 1c		3
	4	Net gain (loss) from Form 4797, line 17 (attach Form 4797)		4
	5	Other income (loss) (see instructions—attach statement)		5
	6	**Total income (loss).** Add lines 3 through 5 ▶		6
Deductions (see instructions for limitations)	7	Compensation of officers (see instructions—attach Form 1125-E)		7
	8	Salaries and wages (less employment credits)		8
	9	Repairs and maintenance		9
	10	Bad debts		10
	11	Rents		11
	12	Taxes and licenses		12
	13	Interest		13
	14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)		14
	15	Depletion **(Do not deduct oil and gas depletion.)**		15
	16	Advertising		16
	17	Pension, profit-sharing, etc., plans		17
	18	Employee benefit programs		18
	19	Other deductions (attach statement)		19
	20	**Total deductions.** Add lines 7 through 19 ▶		20
	21	**Ordinary business income (loss).** Subtract line 20 from line 6		21
Tax and Payments	22a	Excess net passive income or LIFO recapture tax (see instructions)	22a	
	b	Tax from Schedule D (Form 1120S)	22b	
	c	Add lines 22a and 22b (see instructions for additional taxes)		22c
	23a	2017 estimated tax payments and 2016 overpayment credited to 2017	23a	
	b	Tax deposited with Form 7004	23b	
	c	Credit for federal tax paid on fuels (attach Form 4136)	23c	
	d	Add lines 23a through 23c		23d
	24	Estimated tax penalty (see instructions). Check if Form 2220 is attached ▶ ☐		24
	25	**Amount owed.** If line 23d is smaller than the total of lines 22c and 24, enter amount owed		25
	26	**Overpayment.** If line 23d is larger than the total of lines 22c and 24, enter amount overpaid		26
	27	Enter amount from line 26 **Credited to 2018 estimated tax** ▶ **Refunded** ▶		27

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer Date ▶ Title

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer Use Only

Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN

Firm's name ▶ Firm's EIN ▶

Firm's address ▶ Phone no.

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form **1120S** (2017)

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Schedule B **Other Information** (see instructions)

		Yes	No
1	Check accounting method: a ☐ Cash b ☐ Accrual c ☐ Other (specify) ▶		
2	See the instructions and enter the: a Business activity ▶ b Product or service ▶		
3	At any time during the tax year, was any shareholder of the corporation a disregarded entity, a trust, an estate, or a nominee or similar person? If "Yes," attach Schedule B-1, Information on Certain Shareholders of an S Corporation		
4	At the end of the tax year, did the corporation:		
a	Own directly 20% or more, or own, directly or indirectly, 50% or more of the total stock issued and outstanding of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below		

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage of Stock Owned	(v) If Percentage in (iv) is 100%, Enter the Date (if any) a Qualified Subchapter S Subsidiary Election Was Made

		Yes	No
b	Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below		

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Owned in Profit, Loss, or Capital

		Yes	No
5 a	At the end of the tax year, did the corporation have any outstanding shares of restricted stock?		
	If "Yes," complete lines (i) and (ii) below.		
	(i) Total shares of restricted stock ▶		
	(ii) Total shares of non-restricted stock ▶		
b	At the end of the tax year, did the corporation have any outstanding stock options, warrants, or similar instruments?		
	If "Yes," complete lines (i) and (ii) below.		
	(i) Total shares of stock outstanding at the end of the tax year ▶		
	(ii) Total shares of stock outstanding if all instruments were executed ▶		
6	Has this corporation filed, or is it required to file, **Form 8918**, Material Advisor Disclosure Statement, to provide information on any reportable transaction?		
7	Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ ☐		
	If checked, the corporation may have to file **Form 8281**, Information Return for Publicly Offered Original Issue Discount Instruments.		
8	If the corporation: **(a)** was a C corporation before it elected to be an S corporation **or** the corporation acquired an asset with a basis determined by reference to the basis of the asset (or the basis of any other property) in the hands of a C corporation **and (b)** has net unrealized built-in gain in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years (see instructions) ▶ $		
9	Enter the accumulated earnings and profits of the corporation at the end of the tax year. $		
10	Does the corporation satisfy **both** of the following conditions?		
a	The corporation's total receipts (see instructions) for the tax year were less than $250,000		
b	The corporation's total assets at the end of the tax year were less than $250,000		
	If "Yes," the corporation is not required to complete Schedules L and M-1.		
11	During the tax year, did the corporation have any non-shareholder debt that was canceled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt?		
	If "Yes," enter the amount of principal reduction $		
12	During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," see instructions		
13a	Did the corporation make any payments in 2017 that would require it to file Form(s) 1099?		
b	If "Yes," did the corporation file or will it file required Forms 1099?		

Schedule K Shareholders' Pro Rata Share Items

Section	Line	Item		Line no.	Total amount
Income (Loss)	1	Ordinary business income (loss) (page 1, line 21)		1	
	2	Net rental real estate income (loss) (attach Form 8825)		2	
	3a	Other gross rental income (loss)	3a		
	b	Expenses from other rental activities (attach statement)	3b		
	c	Other net rental income (loss). Subtract line 3b from line 3a		3c	
	4	Interest income		4	
	5	Dividends: a Ordinary dividends		5a	
		b Qualified dividends	5b		
	6	Royalties		6	
	7	Net short-term capital gain (loss) (attach Schedule D (Form 1120S))		7	
	8a	Net long-term capital gain (loss) (attach Schedule D (Form 1120S))		8a	
	b	Collectibles (28%) gain (loss)	8b		
	c	Unrecaptured section 1250 gain (attach statement)	8c		
	9	Net section 1231 gain (loss) (attach Form 4797)		9	
	10	Other income (loss) (see instructions) Type ▶		10	
Deductions	11	Section 179 deduction (attach Form 4562)		11	
	12a	Charitable contributions		12a	
	b	Investment interest expense		12b	
	c	Section 59(e)(2) expenditures (1) Type ▶ (2) Amount ▶		12c(2)	
	d	Other deductions (see instructions) Type ▶		12d	
Credits	13a	Low-income housing credit (section 42(j)(5))		13a	
	b	Low-income housing credit (other)		13b	
	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)		13c	
	d	Other rental real estate credits (see instructions) Type ▶		13d	
	e	Other rental credits (see instructions) Type ▶		13e	
	f	Biofuel producer credit (attach Form 6478)		13f	
	g	Other credits (see instructions) Type ▶		13g	
Foreign Transactions	14a	Name of country or U.S. possession ▶			
	b	Gross income from all sources		14b	
	c	Gross income sourced at shareholder level		14c	
		Foreign gross income sourced at corporate level			
	d	Passive category		14d	
	e	General category		14e	
	f	Other (attach statement)		14f	
		Deductions allocated and apportioned at shareholder level			
	g	Interest expense		14g	
	h	Other		14h	
		Deductions allocated and apportioned at corporate level to foreign source income			
	i	Passive category		14i	
	j	General category		14j	
	k	Other (attach statement)		14k	
		Other information			
	l	Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued		14l	
	m	Reduction in taxes available for credit (attach statement)		14m	
	n	Other foreign tax information (attach statement)			
Alternative Minimum Tax (AMT) Items	15a	Post-1986 depreciation adjustment		15a	
	b	Adjusted gain or loss		15b	
	c	Depletion (other than oil and gas)		15c	
	d	Oil, gas, and geothermal properties—gross income		15d	
	e	Oil, gas, and geothermal properties—deductions		15e	
	f	Other AMT items (attach statement)		15f	
Items Affecting Shareholder Basis	16a	Tax-exempt interest income		16a	
	b	Other tax-exempt income		16b	
	c	Nondeductible expenses		16c	
	d	Distributions (attach statement if required) (see instructions)		16d	
	e	Repayment of loans from shareholders		16e	

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Schedule K	Shareholders' Pro Rata Share Items (continued)		Total amount
Other Information	17a Investment income	17a	
	b Investment expenses	17b	
	c Dividend distributions paid from accumulated earnings and profits	17c	
	d Other items and amounts (attach statement)		
Recon-ciliation	18 **Income/loss reconciliation.** Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14l	18	

Schedule L Balance Sheets per Books	Beginning of tax year		End of tax year	
Assets	(a)	(b)	(c)	(d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities (see instructions)				
6 Other current assets (attach statement)				
7 Loans to shareholders				
8 Mortgage and real estate loans				
9 Other investments (attach statement)				
10a Buildings and other depreciable assets				
b Less accumulated depreciation	( )		( )	
11a Depletable assets				
b Less accumulated depletion	( )		( )	
12 Land (net of any amortization)				
13a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
14 Other assets (attach statement)				
15 Total assets				
Liabilities and Shareholders' Equity				
16 Accounts payable				
17 Mortgages, notes, bonds payable in less than 1 year				
18 Other current liabilities (attach statement)				
19 Loans from shareholders				
20 Mortgages, notes, bonds payable in 1 year or more				
21 Other liabilities (attach statement)				
22 Capital stock				
23 Additional paid-in capital				
24 Retained earnings				
25 Adjustments to shareholders' equity (attach statement)				
26 Less cost of treasury stock		( )		( )
27 Total liabilities and shareholders' equity				

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Schedule M-1 **Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

Note: The corporation may be required to file Schedule M-3 (see instructions)

1	Net income (loss) per books		5	Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize)		a	Tax-exempt interest $	
3	Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (itemize):		6	Deductions included on Schedule K, lines 1 through 12 and 14l, not charged against book income this year (itemize):	
a	Depreciation $		a	Depreciation $	
b	Travel and entertainment $				
			7	Add lines 5 and 6	
4	Add lines 1 through 3		8	Income (loss) (Schedule K, line 18). Line 4 less line 7	

Schedule M-2 **Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed** (see instructions)

		(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
1	Balance at beginning of tax year			
2	Ordinary income from page 1, line 21			
3	Other additions			
4	Loss from page 1, line 21	( )		
5	Other reductions	( )	( )	
6	Combine lines 1 through 5			
7	Distributions other than dividend distributions			
8	Balance at end of tax year. Subtract line 7 from line 6			

Form **1120S** (2017)

EXHIBIT 15-3

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1120S. Washington, DC: 2017.

In a manner similar to partnership taxation, some items of income, expense, or credit are not included in income but are separately stated and allocated to shareholders on a per share, per day basis.[34] Separately stated items are on Schedule K (see pages 3 and 4 of Form 1120S in Exhibit 15-3). The Subchapter S Schedule K is similar to that for a partnership.

EXAMPLE 15-21

Pitt Company is a Subchapter S corporation with two shareholders, Anne and Zeke, who own 60% and 40% of the corporation, respectively. During the year, Pitt has income of $50,000 that includes $3,000 of dividend income and $1,000 of charitable contributions. Pitt's Sub S taxable income is $48,000. The allocation of the income and separately stated items follows:

	Anne (60%)	Zeke (40%)	Total
Taxable income	$28,800	$19,200	$48,000
Dividend income	1,800	1,200	3,000
Charitable contributions	600	400	1,000

Corporate and Shareholder Basis and Distributions

Upon formation, the basis rules for S corporations are the same as those for C corporations (noted previously). Significant differences, however, pertain to income and separately stated items and distributions. In effect, Sub S shareholders are taxed on their proportionate share of income and separately stated items but are not taxed when they receive a distribution. This treatment is similar to that for partners of a partnership.

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A Sub S shareholder who receives a K-1 from the corporation reports each item on her or his tax return in a manner similar to that done for a partnership (see Chapter 14). Each K-1 item increases or decreases the basis of the shareholder's stock. If the Sub S corporation reports a loss, the shareholder can take the loss only to the extent of her or his adjusted basis in the corporation's stock.

A shareholder's basis in the stock is increased or decreased by the following items:

Increases:

- Net income
- Separately stated income items (dividends, interest, capital gains tax exempt income, etc.)
- Capital contributions
- Loans from the shareholder to the corporation

Decreases:

- Net losses
- Separately stated expense items (charitable contributions, capital losses, etc.)
- Distributions from the corporation at fair market value

Decreases cannot reduce the shareholder's basis in stock below zero. Any excess first goes to reduce the basis of any loans from the shareholder to the corporation, and if any remains, it is suspended. When the corporation later recognizes items that increase basis (such as net income), the increases are allocated as follows: (1) increase the basis of shareholder loans, if any, to their original basis, (2) eliminate suspended losses, and (3)

increase the basis of the stock for the remainder.

EXAMPLE 15-22

Thangam owns stock in a Subchapter S corporation. At the end of 2016, the tax basis of her stock was $2,000. She had previously made a $1,500 loan to the company. For year 2016, her share of the loss of the company was $4,500. To account for this loss, she would reduce the tax basis of her stock to $0, then would reduce the tax basis of her loan to $0, and would have a remaining $1,000 suspended loss ($4,500 − $2,000 − $1,500 = $1,000). In 2017, her share of corporate net income was $3,000. She would first increase the tax basis in the loan to its original $1,500. Then she would eliminate the $1,000 suspended loss. Finally, she would increase the tax basis of her stock by the remaining $500.

An S corporation differs from a partnership in that the shareholder does not increase his or her stock basis by his or her share of debt in the corporation.

EXAMPLE 15-23

Laurel owns stock in a Subchapter S corporation. At the end of 2016, her tax basis in the stock was $100. In 2017, her share of corporate net income was $150, and her share of a corporate charitable contribution was $300. At the end of 2017, a simple mathematical calculation would indicate that her stock basis is a negative $50 ($100 + $150 − $300 = [$50]). However, basis cannot be negative. Her basis is set to zero and the $50 shortfall is suspended to future years. If, in 2018, Laurel's share of corporate net income was $400, she would increase her stock basis by $400 and decrease her stock basis by the suspended $50, resulting in a December 2018 stock basis of $350.

Schedule M-1

Schedule M-1 for Form 1120S is also a reconciliation between income for books and income for taxes. The substantive difference between an S corporation Schedule M-1 and a C corporation Schedule M-1 is that an S corporation has no line for federal income tax because the Subchapter S corporation does not pay federal income tax; the shareholders pay it.

CONCEPT CHECK 15-7—LO 15-7

1. Corporations with fewer than 100 shareholders are automatically considered Subchapter S corporations. True or false?
2. A Subchapter S corporation is taxed in a manner similar to a partnership. True or false?
3. Subchapter S corporations file a Form __________.
4. Alyssa is a shareholder in a Subchapter S corporation and has a basis of $1,000 in her stock. The corporation gives her a $200 cash dividend. Is this dividend taxable to Alyssa?
5. Similar to a partnership, shareholders of a Subchapter S corporation increase the basis of their stock by their share of corporate debts. True or false?

Summary

LO 15-1: Describe corporate formation and filing requirements.	Corporations • Are legal entities formed under the laws of a state. • Can use cash basis of accounting if sales < = $5 million or have no inventory. • Can choose fiscal year-end in first year. • File Form 1120.
LO 15-2: Calculate corporate and shareholder basis.	• No gain on formation of corporation if transferors control 80% or more. • Relief of liability in excess of basis triggers gain equal to the excess. • Boot received triggers gain. • Basis to corporation is shareholder basis plus gain recognized by shareholder. • Basis to shareholder is carryover basis plus gain recognized, minus boot received.
LO 15-3: Determine corporate taxable	• Taxable income generally follows rules associated with trade or business (Chapter 6).

income and tax liability.

- Net capital losses are not permitted. Carry back three years and then forward five.
- Charitable contributions are limited to 10% of taxable income before considering charitable contributions. Excess is carried forward five years.
- A deduction is permitted equal to 70%, 80%, or 100% of dividends received from other domestic corporations. DRD may be limited.
- Organizational expenditures and start-up expenses can be deducted over 180 months or more upon election.
- Taxable income is subject to tax rates up to 35%.
- Estimated payments are required.
- Net operating losses can be carried back 2 years and forward 20. Can choose to only carry forward if an affirmative election is made.

LO 15-4: Explain the tax rules for transactions with shareholders.

- Distributions from earnings and profits are dividends and are taxable to shareholder; not deductible by corporation.
- Distributions in excess of E&P are nontaxable to extent of stock basis and a capital gain in excess of basis.
- Distribution of property with FMV in excess of basis creates gain to corporation.
- Distribution in full liquidation of shareholder interest creates gain or loss equal to distribution compared to basis.

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LO 15-5: Prepare Schedules L, M-1, and M-3.

- Schedule L is a beginning and ending balance sheet in accordance with financial accounting method.
- Schedule M-1 is a reconciliation from book income to taxable income.
- M-1 sets forth all book/tax differences, whether permanent or temporary.
- M-3, a comprehensive book/tax reconciliation, is for large corporations.

LO 15-6: Discuss other corporate issues.

- Parent–subsidiary groups are those in which a common parent owns, directly or indirectly, at least 80% of one or more other corporations.
- Can elect to file consolidated tax return.
- Brother–sister group may exist if five or fewer persons own two or more corporations.
- Must disclose to IRS.
- Most corporations are subject to AMT.
- Corporate AMT concepts are similar to AMT for individuals.

LO 15-7: Know the

Subchapter S corporations

rules for tax treatment of Subchapter S corporations.	• Are “regular” corporations that elect to be taxed in a manner similar to a partnership. • File 1120S. • Must meet four tests to elect Sub S status. • Report taxable income and separately stated items similar to a partnership. • Do not pay tax; shareholders do. • Calculate shareholder basis similar to partnership except corporate debt does not affect basis. • Can have distributions, which are not taxable to shareholders.

Discussion Questions

All applicable discussion questions are available with ***Connect***©

LO 15-1 1. Explain the circumstances in which a corporation can use the accrual basis or the cash basis of accounting.

LO 15-1 2. When must a corporate tax return be filed? Can a corporation receive an extension of time to file a return, and if so, what is the length of the extension?

LO 15-1 3. Without regard to any extensions of time to file, when is the income tax return due for a corporation with a May 31 year-end? An August 31 year-end? A February 28 year-end?

LO 15-2 4. Explain the 80% rule as it pertains to the formation of a corporation.

LO 15-2 5. In what instances could a gain be recorded associated with the issuance of stock upon formation of a corporation? Assume that the 80% test is met.

LO 15-2 6. An individual contributes property with a fair market value in excess of basis to a corporation in exchange for stock. What is the basis of the stock in the hands of the shareholder, and what is the basis of the property contributed in the hands of the corporation?

LO 15-3 7. What is the *dividends received deduction*? What is its purpose?

LO 15-3 8. Explain the rules associated with capital loss carrybacks and carryforwards.

LO 15-3 9. Explain the rules pertaining to the deductibility of charitable contributions for a C corporation.

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LO 15-3 10. Explain the difference between *organizational expenses* and *start-up expenditures*. In what circumstances are they deductible?

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LO 15-3 11. Why does the marginal tax rate vary up and down for taxable incomes over $100,000?

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LO 15-3 12. On what dates are estimated payments due for a calendar year corporation? What are the dates for a corporation with a fiscal year ending August 31?

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LO 15-3 13. Explain the rules associated with the carryback and carryforward of net operating losses.

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LO 14. A corporation may make a distribution to its shareholders. Depending on the

15-4 circumstances, in the hands of the shareholder, the distribution can be classified as a dividend, a tax-free distribution, or a capital gain. Explain the circumstances in which each classification can occur.

LO 15-4 15. In what circumstances does a corporation record a gain related to a distribution to a shareholder?

LO 15-5 16. What is Schedule M-1, and what is its purpose?

LO 15-5 17. What is Schedule L, and what is its purpose?

LO 15-6 18. For purposes of the corporate alternative minimum tax, explain the application of the AMT exemption amount and its phaseout.

LO 15-6 19. Under what circumstances can a parent–subsidiary group file a consolidated income tax return?

LO 15-6 20. Why might a parent–subsidiary group choose to file, or not to file, a consolidated income tax return?

LO 15-6 21. What are the two tests used to determine whether a group of corporations is a brother– sister group?

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LO 15-7 22. What criteria must a corporation meet to appropriately elect Subchapter S status?

LO 15-7 23. A calendar year corporation properly files a Subchapter S election on January 10, 2017. On what date is the election effective? What if the election were filed on June 1, 2017?

LO 15-7 24. The Subchapter S status of a calendar year corporation is statutorily terminated on August 12, 2017. The Subchapter S status is deemed to be terminated on what date? What is the answer if the status were voluntarily

revoked on that date?

Multiple-Choice Questions

All applicable multiple-choice questions are available with ***Connect***©

LO 15-1 25. Which of the following statements is correct?

a. A calendar year corporation must file its tax return no later than March 15 unless it requests an extension.

b. A corporation is a legal entity that is taxed on its taxable income.

c. Corporations choose their tax year in their first year of operation and can elect to change it in their third year of operation.

d. Large corporations without inventory can choose to use either the cash or accrual method of accounting.

LO 15-1 26. A corporation has a fiscal year-end of June. If the corporation does not receive an automatic extension of time to file its return, the return will be due on the 15th of

a. August.

b. September.

c. October.

d. November.

LO 15-2 27. Two individuals form a corporation and own all of its stock. One individual contributes cash, and the other contributes property encumbered by a mortgage. The new corporation assumes the mortgage. Which of the following statements is true with respect to the individual who contributes the property?

a. Because the 80% test is met, no gain or loss will be recognized.

b. Gain is recognized to the extent of relief of liability.

c. Gain is recognized to the extent of relief of liability in excess of the basis of property contributed.

d. Gain is recognized to the extent that the fair market value of the stock exceeds the basis of the property contributed.

page 15-32

LO 15-2 28. Tameka and Janelle form a corporation in which each will own 50% of the stock. Tameka contributes $50,000 in cash. Janelle contributes property with

a basis of $30,000 and an FMV of $60,000. She receives $10,000 of inventory from the corporation. Which of the following statements is true?

a. Janelle will report a gain of $10,000.

b. Janelle will report a gain of $30,000.

c. Tameka will report a gain of $10,000.

d. Neither Tameka nor Janelle will report a gain or loss as a result of these transactions.

LO 15-2 29. Svetlana forms a corporation in which she is the sole shareholder. She contributes a vehicle with a basis of $15,000 and an FMV of $8,000 in exchange for stock. She also contributes cash of $2,000. Svetlana will recognize

a. A $5,000 loss.

b. A $7,000 loss.

c. A $10,000 loss.

d. Neither a gain nor loss.

LO 15-2 30. Annabelle forms a corporation in which she is the sole shareholder. She transfers $20,000 cash plus land with a $100,000 adjusted basis and a $160,000 FMV in exchange for all the stock of the corporation. The corporation assumes the $140,000 mortgage on the land. What is her basis in the stock, and what is the gain she must report (if any)?

a. No gain; stock basis is $120,000.

b. Gain of $20,000; stock basis is $120,000.

c. No gain; stock basis is $100,000.

d. Gain of $20,000; stock basis is zero.

LO 15-3 31. Mountain Company owns 10% of Valley Company. Both are domestic corporations. Valley pays a $60,000 dividend to Mountain. What amount of dividend income will be included in the taxable income of Mountain Company?

a. $6,000.

b. $12,000.

c. $18,000.

d. $60,000.

LO 15-3 32. For Subchapter C corporations, which of the following statements is true?

a. Capital losses can be carried back three years and then carried forward five years.

b. Corporations can elect to forgo the carryback period for capital losses and only carry the losses forward.

c. Capital losses can be carried back 2 years and then carried forward 20 years.

d. Capital losses are permitted up to $3,000 per year.

LO 33. Which of the following statements is false?
15-1, 15-3

a. A corporation with average sales in excess of $5,000,000 must use the accrual method of accounting.

b. The charitable contributions of a corporation may be limited.

c. A corporation may be entitled to a deduction for dividends received from other domestic corporations.

d. Passive loss rules apply to all corporations.

LO 34. A calendar year corporate taxpayer must make its final estimated tax payment on the 15th of which month?
15-3

a. November.

b. December.

c. January.

d. February.

LO 35. Which, if any, of the following statements concerning the shareholders of a Subchapter C corporation is correct?
15-4

a. Shareholders are taxed on their proportionate share of earnings and profits as they are earned.

b. Shareholders are taxed on distributions from corporate earnings and profits.

c. Shareholders are never taxed on earnings and profits or distributions from the corporation.

d. None of these statements is correct.

LO 36. Parker Company has earnings and profits of $8,000. It distributes capital gain property with a basis of $2,000 and FMV of $9,000 to Gertrude Parker, its sole shareholder. Gertrude has a basis of $10,000 in her stock. Which of the following statements is true with respect to this transaction?
15-4

a. Gertrude will report dividend income of $2,000 and a capital gain of $7,000.

b. Gertrude will report dividend income of $8,000.

c. Gertrude will report dividend income of $8,000 and a nontaxable distribution of $1,000.

d. Gertrude will report dividend income of $9,000.

LO 37. Which of the following is a negative adjustment on Schedule M-1?
15-5

a. Federal income tax.

b. Charitable contributions in excess of the 10% limit.

c. Depreciation for books in excess of depreciation for taxes.

d. Tax-exempt interest income.

LO 15-5 38. Which of the following is a positive adjustment on Schedule M-1?

a. Excess of capital losses over capital gains.

b. Excess of capital gains over capital losses.

c. Charitable contribution carryover to the current year.

d. Depreciation for taxes in excess of depreciation for books.

LO 15-6 39. Banana Company is widely held. It owns 85% of Strawberry Corporation. Two individuals hold the remaining 15%. Which of the following statements is true?

a. Banana and Strawberry must file a consolidated tax return.

b. Banana and Strawberry can elect to file a consolidated tax return.

c. Banana and Strawberry can file a consolidated tax return if the other owners of Strawberry agree.

d. Banana and Strawberry are brother–sister corporations.

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LO 15-6 40. What missing dollar amounts are correct in the following sentence? The AMT exemption is $_________ for corporations with AMT income of $_________ or less.

a. $40,000; $150,000.

b. $40,000; $310,000.

c. $150,000; $310,000.

d. This question cannot be answered with the information given.

LO 15-7 41. Which of the following items increase basis for a stockholder of a Subchapter S corporation?

a. Capital contributions.

b. Charitable contributions.

c. Net losses.

d. Distributions from the corporation.

LO 15-7 42. Which of the following statements is incorrect?

a. An S corporation can own stock of a C corporation.

b. A C corporation can own stock of an S corporation.

c. An S corporation can be a partner in a partnership.

d. An estate can own stock of an S corporation.

LO 15-7 43. Which, if any, of the following statements concerning the shareholders of a Subchapter S corporation is correct?

a. Shareholders are taxed on their proportionate share of earnings that are distributed.

b. Shareholders are taxed on the distributions from the corporation.

c. Shareholders are taxed on their proportionate share of earnings whether or not distributed.

d. None of these statements is correct.

LO 15-4, 15-7 44. Chen received a $10,000 dividend from a Subchapter C corporation. He also owns a 50% interest in a Subchapter S corporation that reported $100,000 of taxable income. He received a distribution of $20,000 from the Subchapter S corporation. How much income will Chen report as a result of these events?

a. $30,000.

b. $40,000.

c. $60,000.

d. $80,000.

Problems

All applicable problems are available with ***Connect***©

LO 15-2 45. When a corporation is formed, in certain cases the transferor may report a gain. What are the instances in which a gain would be reported? In these cases, what is the basis of the stock held by the transferor?

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page 15-35

LO 15-2 46. An individual contributes property with an FMV in excess of basis to a corporation in exchange for stock. The property is subject to a mortgage. In each of the following instances, determine the basis of the stock in the hands of the shareholder and the basis of the property contributed in the hands of the corporation. Assume that the 80% rule is met.

a. The property is subject to a mortgage that is less than basis, and the corporation assumes the mortgage.

b. The property is subject to a mortgage that is more than basis, and the corporation assumes the mortgage.

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LO 15-2 47. Determine the basis of stock in the hands of the shareholder in each of the following instances. Assume that the 80% rule is met in all cases.

a. Contribution of property with a basis of $1,000 and an FMV of $1,400.

b. Contribution of property with a basis of $3,000 and an FMV of $3,800. The stockholder also received $500 cash from the corporation as part of the stock transaction.

c. Contribution of property with a basis of $8,200 and an FMV of $12,500. The stockholder also received property with an FMV of $1,700 from the corporation as part of the stock transaction.

d. Contribution of a building with an FMV of $200,000, a mortgage (assumed by the corporation) of $100,000, and a basis of $125,000.

e. Contribution of a building with an FMV of $1,700,000, a mortgage (assumed by the corporation) of $1,000,000, and a basis of $635,000.

LO 15-2 48. Using the information from Problem 47, determine the basis of the property contributed in the hands of the corporation in each instance. Assume that the 80% rule is met in all cases.

LO 15-3 49. Explain the operation of the dividends received deduction.

LO 15-3 50. Determine the amount of the dividends received deduction in each of the following instances. In all cases, the net income figure includes the full dividend.

a. Dividend of $10,000 from a 45% owned corporation; taxable income before DRD of $50,000.

b. Dividend of $19,000 from a 15% owned corporation; taxable income before DRD of $75,000.

c. Dividend of $22,000 from a 60% owned corporation; taxable income before DRD of $11,000.

d. Dividend of $8,000 from a 10% owned corporation; taxable income before DRD of $7,000.

LO 15-3 51. For each of the following cases, determine the amount of capital gain or loss to report in each year (after taking into account any applicable carrybacks) and the capital loss carry-forward to 2017 if any. Assume that 2011 is the first year of operation for each corporation.

	Capital Gain or Loss for Year Indicated					
Corporation	2011	2012	2013	2014	2015	2016
A	$ 4,000	$7,000	$(10,000)	$ 5,000	$ 3,000	(1,000)
B	5,000	3,000	3,000	4,000	(20,000)	2,000
C	5,000	9,000	(3,000)	2,000	(20,000)	8,000
D	(50,000)	7,000	3,000	11,000	10,000	2,000

LO 15-3 52. Determine the deductible charitable contribution in each of the following instances:

a. Charitable contribution of $4,000 and taxable income before charitable contribution of $50,000.

b. Charitable contribution of $8,000 and taxable income before charitable contribution of $50,000.

c. Charitable contribution of $4,800 and taxable income before charitable contribution of $50,000. Taxable income includes a net operating loss carryforward of $5,000.

d. Charitable contribution of $4,800 and taxable income before charitable contribution of $40,000. Taxable income includes a capital loss carryback of $5,000.

LO 15-3 53. Determine the amount of tax liability for the corporation in each of the following cases:

a. Taxable income of $45,200.

b. Taxable income of $450,200.

c. Taxable income of $4,500,200.

d. Taxable income of $14,500,200.

e. Taxable income of $45,000,200.

LO 15-3 54. Determine taxable income in each of the following instances. Assume that the corporation is a C corporation and that book income is before any income tax expense.

a. Book income of $50,000 including capital gains of $2,000, a charitable contribution of $1,000, and meals and entertainment expenses of $3,000.

b. Book income of $92,000 including capital losses of $3,000, a charitable contribution of $12,000, and meals and entertainment expenses of $3,000.

c. Book income of $76,000 including municipal bond interest of $2,000, a charitable contribution of $5,000, and dividends of $3,000 from a 10% owned domestic corporation. The corporation also has an $8,000 charitable contribution carryover.

d. Book income of $129,000 including municipal bond interest of $2,000, a charitable contribution of $5,000, and dividends of $7,000 from a 70% owned domestic corporation. The corporation has a capital loss carryover of $6,000 and a capital gain of $2,500 in the current year.

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LO 15-3 55. Using the information from Problem 54, calculate the amount of tax liability in each instance.

LO 15-3 56. LMNO Corporation was formed in 2010. It reported net income (loss) over the 2009 through 2016 tax years, before accounting for any net operating losses, as follows:

2010	$ (4,000)
2011	19,000
2012	23,000
2013	(31,000)
2014	11,000
2015	(8,000)
2016	3,000

a. Determine annual taxable income after accounting for any net operating losses for 2010 to 2016 assuming the corporation does not waive the carryback period. Also determine any NOL carryforward to 2017.

b. Determine annual taxable income after accounting for any net operating losses for 2010 to 2016 assuming the corporation waives the carryback period. Also determine any NOL carryforward to 2017.

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LO 15-4 57. Determine the amount of taxable dividend, nontaxable distribution, and capital gain for the distributions made in each of the following cases:

a. Corporate E&P of $10,000, shareholder stock basis of $12,000, distribution of $6,000.

b. Corporate E&P of $7,500, shareholder stock basis of $7,000, distribution of $6,500.

c. Corporate E&P of $16,000, shareholder stock basis of $5,000, distribution of $17,000.

d. Corporate E&P of $14,000, shareholder stock basis of $11,000, distribution of $26,000.

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LO 15-5 58. Go to the IRS Web site (www.irs.gov) and print page 5 of Form 1120. Complete Schedule M-1 for each of the following cases:

a. Corporate financial statement: net income of $52,000 including tax expense of $15,000, charitable contributions of $3,000, and depreciation expense of $37,000. Depreciation expense for tax purposes is $46,000.

b. Corporate financial statement: net income of $139,000 including tax expense of $68,000, charitable contributions of $28,000, depreciation expense of $103,000, and meals and entertainment expenses of $31,000. Depreciation expense for tax purposes is $145,000.

c. Corporate financial statement: net income of $226,000 including tax expense of $111,000, charitable contributions of $16,000, municipal bond interest of $19,000, meals and entertainment expenses of $41,000, capital gains of $6,000, and depreciation expense of $142,000. Depreciation expense for tax purposes is $131,000, and the corporation has a $7,000 charitable contribution carryforward for the current year.

LO 15-6 59. A corporation has regular taxable income of $370,000 and a regular tax liability of $125,800. It has positive tax preference items totaling $310,000. You have determined that the corporation is subject to alternative minimum tax because it has average annual gross receipts of $9,000,000. Determine the amount of AMT owed by the corporation, if any.

LO 15-7 60. Refer to Problem 54. Determine the amount of taxable income and separately stated items in each case, assuming the corporation is a Subchapter S corporation.

LO 61. Refer to Problem 58. Determine the amount of taxable income and

15-7 separately stated items in each case, assuming the corporation is a Subchapter S corporation. Ignore any carry-forward items.

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Tax Return Problems

All applicable tax return problems are available with ***Connect***©

Tax Return Problem 1

Phil Williams and Liz Johnson are 60% and 40% shareholders, respectively, in WJ Corporation, a Subchapter S corporation. The corporation had the following activity during the year:

Income	$336,123
Interest income	1,259
Dividend income (qualified)	4,586
Long-term capital gains	13,458
Total revenue	$355,426
Expenses	
Salaries and wages (nonofficers)	$ 47,000
Salaries and wages, owners and officers	125,000
Depreciation (MACRS—includes $9,000 § 179 expense)	41,888
Interest expense	5,220
Taxes and licenses	15,548
Meals and entertainment (100%)	15,257
Auto	5,254
Insurance (nonofficer health)	6,000
Accounting and legal	2,800
Repairs	1,200
Charitable contributions	2,500
Payroll penalties	500
Total expenses	$268,167
Net income	$ 87,259

During the year, the corporation made a distribution of $20,000, in total, to its shareholders. Complete page 1, Schedule K, and Schedule M-1 of Form

1120S.

Tax Return Problem 2

Harrell and Smith, Inc., 204 Ambulance Street, Anywhere, CA 92345, is a corporation (EIN 57-1234567) formed on January 1, 2012. Information concerning the corporation and its two shareholders follows. It uses tax/cash basis accounting, did not pay dividends in excess of earnings and profits, has no foreign shareholders, is not publicly traded, and has no NOL carrybacks.

Bruce Harrell (SSN 412-34-5670), 1018 Lexington Downs, Anywhere, CA 92345, is a 60% shareholder. Della Smith (SSN 412-34-5671), 4564 Yates Road, Anywhere, CA 92345, is a 40% shareholder. Bruce received a dividend of $60,000, and Della received a dividend of $40,000. Both of these dividends are in addition to their salaries.

HARRELL AND SMITH, INC.
Comparative Balance Sheet
As of December 31, 2016, and December 31, 2017

	12/31/16	12/31/17
Assets		
Cash	$ 39,955	$ 45,459
Investments	258,456	169,125
Office equipment	225,000	310,759
Accumulated depreciation (equipment)	(156,000)	(165,379)
Building	491,200	491,200
Accumulated depreciation (building)	(37,232)	(49,826)
Total assets	$821,379	$801,338

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HARRELL AND SMITH, INC. *(concluded)*
Comparative Balance Sheet
As of December 31, 2016, and December 31, 2017

	12/31/16	12/31/17
Liabilities and equity		
Notes payable	$353,600	$335,458
Common stock	10,000	10,000
Retained earnings	457,779	455,880
Total liabilities and equity	$821,379	$801,338

HARRELL AND SMITH, INC.
Income Statement
For the Year Ending December 31, 2017

Revenue	
Consulting income	$866,689
Interest income	4,231
Rental income	9,000
Dividend income (qualified)	8,234
Long-term capital losses	(8,200)
Total revenue	$879,954
Expenses	
Salaries and wages (nonowners)	$253,000
Officers' salaries	
Harrell	225,000
Smith	150,000
Depreciation	21,973
Interest expense	20,127
Taxes and licenses	24,051
Utilities	15,500
Travel	11,850
Meals and entertainment (100%)	12,452
Auto	18,500
Insurance (health)	7,000
Accounting and legal	6,450
Repairs	3,200
Charitable contributions	12,000
Payroll penalties	750
Total expenses	$781,853
Net income	$ 98,101

Prepare Form 1120, pages 1–5, for Harrell and Smith, Inc. Schedule D and Form 4562 can be omitted (the information given is not sufficient to complete these forms).

We have provided selected filled-in source documents that are available in *Connect.*

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[1] IRC § 448.

[2] Using the accrual basis for cost of goods sold suggests the corporation will also use that method for inventories. Corporations that use the accrual basis for sales and cost of goods sold and the cash basis for other items are said to be using a hybrid method of accounting.

[3] IRC § 6012(a)(2).

[4] Reg. § 1.6081-3(a)(1).

[5] IRC § 351.

[6] IRC § 1211(a).

[7] IRC § 1212(a).

[8] IRC § 170(b)(2).

[9] IRC § 170(d)(2).

[10] In IRC § 170(e). There are three limited cases in which the deduction can exceed basis.

[11] IRC § 246(b)(3).

[12] IRC § 469(a)(2).

[13] IRC § 542(a)(2).

[14] IRC § 248(a).

[15] IRC § 195(b).

[16] IRC § 11(b).

[17] IRC § 11(b)(1)(C) and IRC § 11(b)(1)(D).

[18] IRC § 6655.

[19] IRC § 172 and IRC § 172(b)(1).

[20] IRC § 172(b)(3).

[21] IRC § 316.

[22] IRC § 301.

[23] IRC § 301(c)(2) and § 301(c)(3).

[24] Reg. § 1.1502-75(b).

[25] IRC § 482.

[26] IRC § 55 through § 59.

[27] IRC § 55(d)(2).

[28] IRC § 55(e).

[29] IRC § 1361.

[30] IRC § 1361(b).

[31] Members of a family are treated as one shareholder under IRC § 1361(c)(1). A family is defined as a common ancestor, the lineal descendants of that person, and the spouses or former spouses of the common ancestor or lineal descendants.

[32] IRC § 1362(a).

[33] IRC § 1362(d).

[34] You might find it instructive to review the rules associated with separately stated items of a partnership in Chapter 14.

Appendix A

Amended Tax Returns (Form 1040X)

Over 150 million individual income tax returns are filed each year. The vast majority of those returns are filed correctly. However, on occasion, the information on an already-filed tax return is determined to be incorrect.

There are literally hundreds of reasons why a previously filed return might be incorrect: a math error, a change of filing status, an additional or corrected informational tax form received, the basis or sales price on the sale of a capital asset initially reported incorrectly, a permitted itemized deduction omitted, and so on. There might be one error or multiple errors, and the changes might cause total tax liability to increase or decrease.

If a previously filed tax return is determined to be in error, the taxpayer must file an amended tax return on Form 1040X. On the amended return, the taxpayer provides numerical information concerning the tax return item(s) that is (are) being corrected plus a reconciliation between the original data and the correct data. The form also has a section where the taxpayer must explain the change.

Let us look at an example:

Exhibit A-1 is the Form 1040 originally filed by Kim Watkins for tax year 2016. She had wage income and interest income, and she took the standard deduction. She originally received a refund of $216. After she had filed her return, she received a corrected Form 1099-INT from State

Savings Bank. The corrected Form 1099-INT showed interest income in box 1 that was $250 more than originally reported.

As a result of receiving this corrected Form 1099-INT, Kim must file an amended tax return. The completed Form 1040X amended tax return is shown in Exhibit A-2.

Column A of the 1040X amended return provides tax information as it was originally filed. The information in column A comes from the data on the original Form 1040 in Exhibit A-1. Column B is used to indicate the numerical items that have changed. In this case, line 1, Adjusted Gross Income, must increase by $250 to properly report the information from the corrected Form 1099-INT received by Kim. Column C represents the corrected totals. The explanation for the change is provided in Part III on page 2.

Note that we are preparing an amended return for tax year 2016. Thus the amount of tax on line 6 of Form 1040X is determined using the 2016 tax tables. These tables can be found in the Form 1040 instructions for tax year 2016, available on the IRS Web site at www.irs.gov.

Because Kim's income increased by $250, she will owe additional tax of $38. That amount is reflected on line 20. When Kim files her amended Form 1040X, she must include a check for $38. Kim is in the 15% tax bracket. The additional tax represents the 15% income tax that is due on the additional $250 of income ($250 × 15% = $37.50, rounded to $38).

Only one item needed to be corrected in our example. If multiple changes are required, the taxpayer should clearly explain each item and provide a detailed summation and reconciliation.

Use the information from our previous example. Assume that Kim received two corrected 1099-INT forms, one from State Savings Bank that increased her interest income by $250 and another from State Bank and Trust that decreased her interest income by $100. In this case, the amount on line 1, column B, of Form 1040X would be $150, the net difference. The explanation in Part III on page 2 needs to clearly explain the change. Here is how Part III, Explanation of Changes, might appear in this case:

Taxpayer received two corrected Forms 1099-INT. One was from State Savings Bank. It showed corrected interest income $250 more than

originally reported. The other was from State Bank and Trust. It showed corrected interest income $100 less than originally reported. The amount of Adjusted Gross Income on line 1 is increased by $150, determined as follows:

Change from corrected Form 1099-INT from State Savings Bank	$ 250
Change from corrected Form 1099-INT from State Bank and Trust	(100)
Net change to Adjusted Gross Income	$ 150

It is extremely important to note that the amended return must be prepared using the tax rules in effect for the year of the original return. For example, if we were preparing an amended return for Kim Watkins for tax year 2015, the standard deduction on line 2 of Form 1040X would continue to be $6,300, but the personal exemption on line 4 would be $4,000 because those were the correct amounts for tax year 2015. We would also use the tax tables or tax rate schedules for 2015, not 2016.

Generally Form 1040X must be filed within three years after the date the original return was filed or within two years after the date the taxpayer paid the tax due on the original return, whichever is later.

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Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2016** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2016, or other tax year beginning , 2016, ending , 20 See separate instructions.

Your first name and initial	Last name	Your social security number
Kim	Watkins	4 1 2 3 4 5 6 7 0
If a joint return, spouse's first name and initial	Last name	Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
123 Main Street		

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Anywhere, TX 77840

Foreign country name	Foreign province/state/county	Foreign postal code

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status

Check only one box.

1 ☑ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions

6a ☑ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ **Spouse**

c **Dependents:** (1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

d Total number of exemptions claimed

Boxes checked on 6a and 6b: 1
No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
Add numbers on lines above ▶ 1

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Line	Description		Line	Amount
7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	45,491
8a	**Taxable** interest. Attach Schedule B if required		8a	1,173
b	**Tax-exempt** interest. **Do not** include on line 8a	8b		
9a	Ordinary dividends. Attach Schedule B if required		9a	
b	Qualified dividends	9b		
10	Taxable refunds, credits, or offsets of state and local income taxes		10	
11	Alimony received		11	
12	Business income or (loss). Attach Schedule C or C-EZ		12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13	
14	Other gains or (losses). Attach Form 4797		14	
15a	IRA distributions 15a	b Taxable amount	15b	
16a	Pensions and annuities 16a	b Taxable amount	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18	Farm income or (loss). Attach Schedule F		18	
19	Unemployment compensation		19	
20a	Social security benefits 20a	b Taxable amount	20b	
21	Other income. List type and amount		21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22	46,664

Adjusted Gross Income

Line	Description		Line	Amount
23	Educator expenses	23		
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24		
25	Health savings account deduction. Attach Form 8889	25		
26	Moving expenses. Attach Form 3903	26		
27	Deductible part of self-employment tax. Attach Schedule SE	27		
28	Self-employed SEP, SIMPLE, and qualified plans	28		
29	Self-employed health insurance deduction	29		
30	Penalty on early withdrawal of savings	30		
31a	Alimony paid b Recipient's SSN ▶	31a		
32	IRA deduction	32		
33	Student loan interest deduction	33		
34	Tuition and fees. Attach Form 8917	34		
35	Domestic production activities deduction. Attach Form 8903	35		
36	Add lines 23 through 35		36	
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37	46,664

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2016)

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Form 1040 (2016) Page 2

Tax and Credits	38	Amount from line 37 (adjusted gross income)			38	46,664
	39a	Check if: ☐ **You** were born before January 2, 1952, ☐ Blind. ☐ **Spouse** was born before January 2, 1952, ☐ Blind. } **Total boxes checked** ▶ **39a** ☐				
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐				
Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,300 Married filing jointly or Qualifying widow(er), $12,600 Head of household, $9,300	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)			40	6,300
	41	Subtract line 40 from line 38			41	40,364
	42	**Exemptions.** If line 38 is $155,650 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions			42	4,050
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	36,314
	44	**Tax** (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐			44	4,985
	45	**Alternative minimum tax** (see instructions). Attach Form 6251			45	
	46	Excess advance premium tax credit repayment. Attach Form 8962			46	
	47	Add lines 44, 45, and 46 ▶			47	4,985
	48	Foreign tax credit. Attach Form 1116 if required	48			
	49	Credit for child and dependent care expenses. Attach Form 2441	49			
	50	Education credits from Form 8863, line 19	50			
	51	Retirement savings contributions credit. Attach Form 8880	51			
	52	Child tax credit. Attach Schedule 8812, if required	52			
	53	Residential energy credits. Attach Form 5695	53			
	54	Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐	54			
	55	Add lines 48 through 54. These are your **total credits**			55	0
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶			56	4,985
Other Taxes	57	Self-employment tax. Attach Schedule SE			57	
	58	Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919			58	
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required			59	
	60a	Household employment taxes from Schedule H			60a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required			60b	
	61	Health care: individual responsibility (see instructions) Full-year coverage ☑			61	
	62	Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s)			62	
	63	Add lines 56 through 62. This is your **total tax** ▶			63	4,985
Payments	64	Federal income tax withheld from Forms W-2 and 1099	64	5,201		
If you have a qualifying child, attach Schedule EIC.	65	2016 estimated tax payments and amount applied from 2015 return	65			
	66a	**Earned income credit (EIC)**	66a			
	b	Nontaxable combat pay election 66b				
	67	Additional child tax credit. Attach Schedule 8812	67			
	68	American opportunity credit from Form 8863, line 8	68			
	69	Net premium tax credit. Attach Form 8962	69			
	70	Amount paid with request for extension to file	70			
	71	Excess social security and tier 1 RRTA tax withheld	71			
	72	Credit for federal tax on fuels. Attach Form 4136	72			
	73	Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐	73			
	74	Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶			74	5,201
Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**			75	216
	76a	Amount of line 75 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐			76a	216
Direct deposit? See instructions.	▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings				
	▶ d	Account number				
	77	Amount of line 75 you want **applied to your 2017 estimated tax** ▶	77			
Amount You Owe	78	**Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶			78	
	79	Estimated tax penalty (see instructions)	79			

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature | Date | Your occupation | Daytime phone number

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN

Firm's name ▶ Firm's EIN ▶

Firm's address ▶ Phone no.

www.irs.gov/form1040 Form **1040** (2016)

EXHIBIT A-1

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1040. Washington, DC: 2016.

Form **1040X** (Rev. January 2017)

Department of the Treasury—Internal Revenue Service

Amended U.S. Individual Income Tax Return

▶ Information about Form 1040X and its separate instructions is at *www.irs.gov/form1040x*.

OMB No. 1545-0074

This return is for calendar year ☑ 2016 ☐ 2015 ☐ 2014 ☐ 2013

Other year. Enter one: calendar year **or** fiscal year (month and year ended):

Your first name and initial	Last name	Your social security number
Kim	Watkins	4 1 2 3 4 5 6 7 0
If a joint return, spouse's first name and initial	Last name	Spouse's social security number

Current home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	Your phone number
123 Main Street		

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Anywhere, TX 77840

Foreign country name	Foreign province/state/county	Foreign postal code

Amended return filing status. You **must** check one box even if you are not changing your filing status. **Caution:** In general, you can't change your filing status from joint to separate returns after the due date.

☑ Single ☐ Married filing jointly ☐ Married filing separately ☐ Head of household (If the qualifying person is a child but not your dependent, see instructions.) ☐ Qualifying widow(er)

Full-year coverage. If all members of your household have full-year minimal essential health care coverage, check "Yes." Otherwise, check "No." (See instructions.) ☑ Yes ☐ No

Use Part III on the back to explain any changes		A. Original amount or as previously adjusted (see instructions)	B. Net change—amount of increase or (decrease)—explain in Part III	C. Correct amount
Income and Deductions				
1 Adjusted gross income. If net operating loss (NOL) carryback is included, check here ▶☐	1	46,664	250	46,914
2 Itemized deductions or standard deduction	2	6,300		6,300
3 Subtract line 2 from line 1	3	40,364	250	40,614
4 Exemptions. **If changing, complete Part I on page 2 and enter the amount from line 29**	4	4,050		4,050
5 Taxable income. Subtract line 4 from line 3	5	36,314	250	36,564
Tax Liability				
6 Tax. Enter method(s) used to figure tax (see instructions): Tax Tables	6	4,985	38	5,023
7 Credits. If general business credit carryback is included, check here ▶☐	7			
8 Subtract line 7 from line 6. If the result is zero or less, enter -0-	8	4,985	38	5,023
9 Health care: individual responsibility (see instructions)	9			
10 Other taxes	10			
11 Total tax. Add lines 8, 9, and 10	11	4,985		5,023
Payments				
12 Federal income tax withheld and excess social security and tier 1 RRTA tax withheld (**If changing**, see instructions.)	12	5,201		5,201
13 Estimated tax payments, including amount applied from prior year's return	13			
14 Earned income credit (EIC)	14			
15 Refundable credits from: ☐ Schedule 8812 Form(s) ☐ 2439 ☐ 4136 ☐ 8863 ☐ 8885 ☐ 8962 or ☐ other (specify):	15			
16 Total amount paid with request for extension of time to file, tax paid with original return, and additional tax paid after return was filed	16			0
17 Total payments. Add lines 12 through 15, column C, and line 16	17			5,201
Refund or Amount You Owe				
18 Overpayment, if any, as shown on original return or as previously adjusted by the IRS	18			216
19 Subtract line 18 from line 17 (If less than zero, see instructions.)	19			4,985
20 **Amount you owe.** If line 11, column C, is more than line 19, enter the difference	20			38
21 If line 11, column C, is less than line 19, enter the difference. This is the amount **overpaid** on this return	21			
22 Amount of line 21 you want **refunded to you**	22			
23 Amount of line 21 you want **applied to your (enter year):** estimated tax	23			

Complete and sign this form on Page 2.

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11360L Form **1040X** (Rev. 1-2017)

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Form 1040X (Rev. 1-2017) Page 2

Part I **Exemptions**

Complete this part **only** if you are increasing or decreasing the number of exemptions (personal and dependents) claimed on line 6d of the return you are amending.

See *Form 1040 or Form 1040A instructions* and *Form 1040X instructions.*		A. Original number of exemptions or amount reported or as previously adjusted	B. Net change	C. Correct number or amount
24 Yourself and spouse. **Caution:** If someone can claim you as a dependent, you can't claim an exemption for yourself	24			
25 Your dependent children who lived with you	25			
26 Your dependent children who didn't live with you due to divorce or separation	26			
27 Other dependents	27			
28 Total number of exemptions. Add lines 24 through 27	28			
29 Multiply the number of exemptions claimed on line 28 by the exemption amount shown in the instructions for line 29 for the year you are amending. Enter the result here and on line 4 on page 1 of this form	29			

30 List **ALL** dependents (children and others) claimed on this amended return. If more than 4 dependents, see instructions.

(a) First name	Last name	**(b)** Dependent's social security number	**(c)** Dependent's relationship to you	**(d)** Check box if qualifying child for child tax credit (see instructions)
				☐
				☐
				☐
				☐

Part II **Presidential Election Campaign Fund**

Checking below won't increase your tax or reduce your refund.

☐ Check here if you didn't previously want $3 to go to the fund, but now do.

☐ Check here if this is a joint return and your spouse did not previously want $3 to go to the fund, but now does.

Part III **Explanation of changes.** In the space provided below, tell us why you are filing Form 1040X.

▶ Attach any supporting documents and new or changed forms and schedules.

Taxpayer received a corrected Form 1099-INT from State Savings Bank. The interest income shown in box 1 of the corrected Form 1099-INT was $250 greater than originally reported to the taxpayer. This $250 increase is reported on page 1 above, in box B.

Remember to keep a copy of this form for your records.

Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief, this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information about which the preparer has any knowledge.

Sign Here

▶ Your signature | Date | ▶ Spouse's signature. If a joint return, **both** must sign. | Date

Paid Preparer Use Only

▶ Preparer's signature | Date | Firm's name (or yours if self-employed)

Print/type preparer's name | Firm's address and ZIP code

☐ Check if self-employed

PTIN | Phone number | EIN

For forms and publications, visit IRS.gov. Form **1040X** (Rev. 1-2017)

EXHIBIT A-2

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1040X. Washington, DC: 2017.

Appendix B

Comprehensive Problems

In this Appendix, we provide a series of comprehensive tax return problems. In the text, the scope of the tax return problems is generally limited to the subject matter of the chapter. The comprehensive problems in this Appendix require integration of tax materials across multiple chapters. Each problem does have a primary focus area—Schedule A, C, D, or E. We provide two problems for Schedules A, C, and D. In each case, the first problem is a bit easier than the second.

The problems can be completed using the TaxACT software provided with this text or can be completed using the tax forms found on the IRS Web site (www.irs.gov).

COMPREHENSIVE PROBLEM 1

With Emphasis on Schedule A

James and Esther Johnson live at 45678 S.W. 112th Street, Homestead, FL 33033. James, who is 67 years old (date of birth 12/14/1950), is retired receiving social security benefits, and Esther, who is 66 years old (date of birth 6/11/1951), is also retired but working on a part-time basis. Their social security numbers are 412-34-5670 and 412-34-5671, respectively.

The Johnsons had qualifying health care coverage at all times during the tax year.

Annual social security income for Jim is $18,000 (SSA-1099, box 5) and for Esther is $10,800 (SSA-1099, box 5).

Interest received by them from Central Bank is $2,545 (1099-INT, box 1). No income tax withholding was made.

Esther is working part-time as an interior decorator as an employee of Decorating House, a corporation. Her Form W-2 shows the following information:

Wages =	$ 15,000.00
Federal W/H =	$ 1,500.00
Social security wages =	$ 15,000.00
Social security W/H =	$ 930.00
Medicare wages =	$ 15,000.00
Medicare W/H =	$ 217.50

Their itemized deductions are as follows:

Mortgage interest on their main home, $8,100.

Real estate taxes, $5,600.

Personal property taxes, $185.

Doctors' expenses unreimbursed by insurance, $5,400.

Medical insurance premiums for the year, $2,400.

Prescribed medicine, $1,995.

Vitamins, $300.

Total cash contributions to their church, $675. The contributions were made over the course of the year and no individual contribution was greater than $250.

Tax preparation fees for their 2016 return, $325, paid in 2017.

Lottery tickets bought by Esther during the year, $750. Winnings received, $940 (W-2G, box 1). Income tax withholding on winnings, $35 (W-2G, box 4).

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Because the Johnsons live in Florida, where there is no state income tax, they will deduct the estimation of the general sales tax related to the area in which they live. The most efficient way to do this is by using the Sales Tax Calculator on the IRS Web site at http://apps.irs.gov/app/stdc/. A key point to remember in using the calculator is that “income” for this calculation also includes the nontaxable portion of social security benefits. For more information on using the IRS Sales Tax Calculator, refer to page 5–12 in the text.

Required

Prepare their individual income tax return using the appropriate forms. They do not want to contribute to the presidential election campaign and do not want anyone to be a third-party designee. For any missing information, make reasonable assumptions.

COMPREHENSIVE PROBLEM 2

With Emphasis on Schedule A

Jamie and Cecilia Reyes are husband and wife and file a joint return. They live at 5677 Apple Cove Road, Boise, ID 83722. Jamie’s social security number is 412-34-5670 (date of birth 6/15/1968) and Cecilia’s is 412-34-5671 (date of birth 4/12/1970). They provide more than half of the support of their daughter, Carmen (age 23), social security number 412-34-5672 (date of birth 9/1/1994), who is a full-time veterinarian school student. Carmen received a $3,200 scholarship covering her room and board at college. She was not required to perform any services to receive the scholarship. Jamie and Cecilia furnish all of the support of Maria (Jamie’s grandmother), social security number 412-34-5673 (date of birth 11/6/1947), who is age 70 and lives in a nursing home. They also have a son, Gustavo (age 4), social security number 412-34-5674 (date of birth 3/14/2013). The Reyes and all of their dependents had qualifying health care coverage at all times during the tax year.

Jamie’s W-2 contained the following information:

Federal Wages (box 1) =	$145,625.00
Federal W/H (box 2) =	$ 16,812.50
cial Security wages (box 3) =	$127,200.00

ocial Security W/H (box 4) =	$ 7,886.00
edicare Wages (box 5) =	$145,625.00
Medicare W/H (box 6) =	$ 2,111.56
State Wages (box 16) =	$145,625.00
State W/H (box 17) =	$ 5,435.00

page B-3

Other receipts for the couple were as follows:

Dividends (all qualified dividends)	$2,500
Interest income:	
Union Bank	$ 220
State of Idaho—interest on tax refund	22
City of Boise school bonds	1,250
Interest from U.S. savings bonds	410
(not used for educational purposes)	
2016 federal income tax refund received in 2017	2,007
2016 state income tax refund received in 2017	218
Idaho lottery winnings	1,100
Casino slot machine winnings	2,250
Gambling losses at casino	6,500

Other information that the Reyeses provided for the 2017 tax year:

Mortgage interest on personal residence	$11,081
Loan interest on fully equipped motor home	3,010
Doctor’s fee for a face-lift for Mrs. Reyes	8,800
Dentist’s fee for a new dental bridge for Mr. Reyes	3,500
Vitamins for the entire family	110
Real estate property taxes paid	$ 5,025
DMV fees on motor home (tax portion)	1,044
DMV fees on family autos (tax portion)	436
Doctors’ bills for grandmother	2,960

Nursing home for grandmother	9,200
Wheelchair for grandmother	1,030
Property taxes on boat	134
Interest on personal credit card	550
Interest on loan to buy public school district bonds	270
Cash contributions to church (all the contributions were in cash and none more than $250 at any one time)	4,100
Cash contribution to man at bottom of freeway off-ramp	25
Contribution of furniture to Goodwill—cost basis	4,000
Contribution of same furniture to listed above Goodwill —fair market value	410
Tax return preparation fee for 2016 taxes	625

Required

Prepare a Form 1040, Schedule A, and Schedule B for the completion of the Reyes's tax return. They do not want to contribute to the presidential election campaign and do not want anyone to be a third-party designee. For any missing information, make reasonable assumptions.

COMPREHENSIVE PROBLEM 3

With Emphasis on Schedule C

Christian Everland (SS# 412-34-5670) is single and resides at 3554 Arrival Road, Apt. 6E, Buckhead, GA 30625.

Last year Christian started his own landscaping business. He now has two employees and had the following business results in 2017:

Revenue	$63,500
Expenses	
Wages	$12,500
Payroll taxes	956
Fuel	3,500
Repairs	2,345
Assets	

Truck, used 100% for business. Original cost of $22,000. Purchased on 03/01/17.

Mower #1. Original cost of $4,500. Purchased new on 01/05/17.

Mower #2. Leased for $200 per month for all of 2017.

Other business equipment. Original cost of $4,000. Purchased new on 01/05/17.

Christian has no other income, does not itemize, and has no dependents. He paid four quarterly federal tax estimates of $1,000 each.

Required

Prepare Christian's 2017 Form 1040 and supplemental schedules. Schedule C, Form 4562, and Schedule SE are required. He wants to contribute to the presidential election campaign and does not want anyone to be a third-party designee. Christian had qualifying health care coverage at all times during the tax year. For any missing information, make reasonable assumptions.

COMPREHENSIVE PROBLEM 4

With Emphasis on Schedule C

Shelly Beaman (social security number 412-34-5670) is single and resides at 540 Front Street, Ashland, NC 27898.

Shelly's W-2 wages	$55,800
Federal withholding	10,044
Social security wages	55,800
Social security withholding	3,460
Medicare withholding	809
State withholding	3,348
1099-INT New Bank	532
1099-DIV XYZ, Inc.	
Ordinary dividends	258
Qualified dividends	258

Shelly had the following itemized deductions:

State income tax withholding (from W-2)	$ 3,348
State income tax paid with 2016 return	600
Real estate tax	4,200
Mortgage interest	11,800
Charitable contributions	2,500

Shelly also started her own home design consulting business in March 2017. The results of her business operations for 2017 follow:

Gross receipts from clients		$154,000
Vehicle mileage	21,000 business miles (2,100 per month)	
	32,000 total miles during the year	
	2010 Chevy Suburban	
	Placed in service 03/01/17	
Postage		(750)
Office supplies		(1,500)
State license fees		(155)
Supplies		(5,300)
Professional fees		(2,500)
Design software		(1,000)
Professional education programs (registration)		(550)
Travel to education program		
Airplane		(350)
Lodging $119/night × 3 nights		
Meals per diem 3 days		
Business Assets	Date Purchased	Cost
Laptop	6/08/17	$ 2,500
Computer	3/05/17	5,700
Printer	3/01/17	1,800
Copier	6/02/17	1,700
Furniture	4/01/17	5,000
Building	3/01/17	175,000
Phone		(600)
Internet service		(450)
Rent		(8,300)
Insurance		(1,700)

Shelly made a $29,000 estimated tax payment on September 15, 2017.

Required

Prepare Shelly's Form 1040 for 2017 including all of the supplementary schedules. Schedule A, Schedule B, Schedule C, Form 4562, and Schedule SE are required. Section 179 is elected on all eligible assets in 2017. She wants to contribute to the presidential election campaign and does not want anyone to be a third-party designee. Shelly had qualifying health care

coverage at all times during the tax year. We have provided filled-in source documents that are available in *Connect*. For any missing information, make reasonable assumptions.

COMPREHENSIVE PROBLEM 5

With Emphasis on Schedule D

Matthew Flaws is a single taxpayer and lives at 5670 Sierra Drive, Honolulu, HI 96822. He has income from a job as a marketing representative, interest income, dividend income, and stock investments. Some of his investments are in a mutual fund. His social security number is 412-34-5670.

For the tax year 2017, Matthew had the following income information:

Wages	$118,000
Social security tax withholding	7,316
Medicare tax withholding	1,711
Federal income tax withholding	17,350
State income tax withholding	3,600

Matthew had the following investment income:

Foundation Bank 1099-INT	$ 1,763
Great Return Mutual Fund 1099-INT	500
Great Return Mutual Fund 1099-DIV	700 (ordinary dividends) ($0 Qualified)
Great Return Mutual Fund 1099-DIV CGD	3,632 (capital gain distribution)

Matthew had the following investment sales:

A 1099-B from Great Return Mutual Fund for the sale of 100 shares of the fund. Matthew had purchased 50 shares on September 21, 2016, for $650; 50 shares on October 1, 2016, for $500; and 50 shares on November 30, 2016, for $800. He sold 100 shares on June 13, 2017, for

$700. Matthew uses the average cost method to calculate the cost basis of his fund shares.

A 1099-B from XYZ Brokerage Company for $5,500 gross proceeds from the October 21, 2017, sale of 50 shares of Liquid Rhino Marketing. The shares were originally purchased on October 22, 2016, for $2,500.

A 1099-B from ABC Brokerage Company for $2,000 gross proceeds from the November 2, 2017, sale of 60 shares of Crestwood Company. Matthew originally inherited the shares from his grandfather on February 18, 2017. The shares had an FMV of $2,500 on his grandfather's date of death. His grandfather originally purchased the shares for $400 in 1990.

Other information:

Matthew had a capital loss carryover from 2016; $1,990 short-term.

Matthew had the following itemized deductions:

Medical insurance premiums	$ 5,000
Real estate taxes	6,210
Home mortgage interest (Form 1098)	21,600
Cash charitable contributions	2,000
Tax preparation fee	200

Matthew does not want to contribute to the presidential election campaign and does not want anyone to be a third-party designee. Matthew had qualifying health care coverage at all times during the tax year.

Required:

Complete the 2017 tax return for Matthew Flaws. For any missing information, make reasonable assumptions.

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COMPREHENSIVE PROBLEM 6

With Emphasis on Schedule D

Debra Simon is a single taxpayer. She is employed as a corporate attorney and lives at 1400 Sand Dollar Circle, Sandville, FL 33868. Her social security number is 412-34-5670.

For tax year 2017, Debra had the following income information:

Wages	$155,000
Social security withholding	7,886
Medicare withholding	2,248
Federal income tax withheld	34,550
State income tax withheld	–0–
New Bank 1099-INT	5,500
Hope Bank 1099-INT	3,875

Debra had the following stock transactions during 2017. A 1099-B was received for the proceeds of each sale:

Transaction	Purchased	Sold	Proceeds	Cost	Sale Expenses
300 sh. IBM	01/05/10	5/11/17	$ 16,500	$14,100	$ 875
200 sh. SMI	01/05/10	5/15/17	41,000	41,800	2,050
100 sh. BMI	03/05/16	4/12/17	10,500	11,400	525
300 sh. ABC	07/05/17	9/15/17	16,500	14,100	825
300 sh. DDC	05/12/17	10/11/17	45,000	51,000	2,250
300 sh. PPC	01/05/10	5/11/17	5,000	2,800	250
4,000 sh. LLP	Inherited	12/11/17	436,000	*	21,800
1,500 sh. QQM	Inherited	5/11/17	41,325	*	2,066

* Debra inherited the LLP stock and the QQM stock when her father passed away on May 1, 2017. Debra's father purchased the LLP stock in 1966 for $35,000. The FMV of the LLP stock at the date of death was $415,500. The QQM stock was purchased by Debra's father on February 6, 2016, for $49,000. The FMV of the QQM stock at the date of death was $49,600.

Debra also sold her wine collection for $38,000. She had purchased the wine on January 5, 2012, for a total of $19,000.

Debra has a capital loss carryover from 2016 of $11,700: $3,000 short-term and $8,700 long-term.

Debra rents a condo (no mortgage interest) and lives in Florida (no state income tax). Thus she claims the standard deduction.

Required

Complete the 2017 tax return for Debra Simon. You do not need to complete the loss carryover worksheet but do need to enter the carryover amount in the appropriate place on Schedule D. She wants to contribute to the presidential election campaign and does not want anyone to be a third-party designee. Debra had qualifying health care coverage at all times during the tax year. For any missing information, make reasonable assumptions.

COMPREHENSIVE PROBLEM 7

With Emphasis on Schedule E

Chris and Stefani Watanabe live with their two boys at 1400 Victoria Lane, Riverside, CA 92501. Chris is an accountant who has his own accounting practice. Stefani is an elementary school teacher. Their sons, Justin and Jordan, are ages 13 and 10, respectively. The following is additional information regarding the Watanabes.

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Social security numbers for the Watanabe family:

Chris	412-34-5670
Stefani	412-34-5671
Justin	412-34-5672
Jordan	412-34-5673

They paid $4,500 to Friendly Hills Child Care center for after-school care for both Justin and Jordan, allocated equally. The address is 2 River Dr, Riverside, CA and their ID number is 22-1234567.

Stefani's W-2 from the Riverside school district showed the following:

Wages =	$ 56,925.04
Federal W/H =	$ 9,085.90
Social security wages =	$ 56,925.04
Social security W/H =	$ 3,529.35
Medicare wages =	$ 56,925.04
Medicare W/H =	$ $825.41
California W/H =	$ 2,105.75

Chris's accounting business is located in downtown Riverside. His business had the following income and expense information for the year:

Gross revenues	$165,000
Expenses:	
Advertising	$ 2,100
Insurance	1,200
Legal fees	10,500
Office supplies	800
Rent	24,000
Travel	6,945
Meals and entertainment	2,400
Utilities	2,800
Wages	34,000
Dues	650

Additionally, Chris and Stefani paid the following expenses during the year:

Medical and dental expenses	$ 4,500
Property tax (home on Victoria Lane)	3,750
State income taxes with the 2016 return	3,900
Donations to the church (cash)	3,500
Mortgage interest (home on Victoria Lane)	14,900
Stefani paid $950 in classroom expenses for her class	

Chris and Stefani also earned $975 of interest income from California Bank during the year.

Lastly, Chris and Stefani own a three-bedroom cabin in Big Bear Lake (they bought it in January of 2005 for $300,000). The address is 3105 Stonehedge Road, Big Bear Lake, CA 92315. They did not use the property for personal use at any time during the year. The revenue and expenses for the Big Bear Lake rental property are as follows:

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Rental income	$18,000
Expenses:	
Insurance	$ 1,200
Property taxes	2,500

Auto (standard mileage)	267
Management fees	1,600
Repairs and maintenance	1,100
Mortgage interest	9,000
Depreciation	Calculate
Utilities	450

The Watanabes also made $15,000 and $9,000 in federal and California estimated income tax payments on 12/31/17, respectively, during the year.

Required

Prepare the Watanabes' federal tax return for 2017. Use Form 1040, Schedule A, Schedule C, Schedule E, Schedule SE, and any additional schedules or forms they may need. The Watanabes had qualifying health care coverage at all times during the tax year. They do not want to contribute to the presidential election campaign, and they do not want anyone to be a third-party designee. For any missing information, make reasonable assumptions.

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Appendix C

Concept Check Answers

CHAPTER 1

Concept Check 1-1

Progressive, proportional, regressive.

Proportional.

Progressive.

Concept Check 1-2

True.

25%. For a married couple, the marginal rate is 25% for taxable income between $75,900 and $153,100.

False. The average tax rate is the percentage that a taxpayer pays in tax given a certain amount of taxable income. The marginal tax rate represents the proportion of tax that he or she pays on the next dollar of taxable income.

False. All tax returns conform to the basic formula.

Concept Check 1-3

False. Only taxpayers with a simple tax structure who meet six criteria can file Form 1040EZ.

False. To file Form 1040EZ, a taxpayer must be under age 65.

True. With the fact pattern provided, Erma meets the six criteria and can file Form 1040EZ.

Concept Check 1-4

Wages, unemployment compensation, and interest. The category wages includes salary and tips.

Form 1099-G.

Single, married filing jointly.

Concept Check 1-5

True. Taxpayers must use the tax tables if their income is under \$100,000. If taxpayers are eligible to use Form 1040EZ, they must have income under \$100,000 (otherwise they would not be eligible to use the form).

\$14,796.

\$14,793.

False. The payment is the greater of 2.5% or a flat dollar amount based on the number of family members.

Concept Check 1-6

False. Taxpayers pay an estimate of their tax liability during the year with income tax withholdings or quarterly estimated tax payments.

Required to pay, \$392.

False. An Earned Income Credit is subtracted from the tax liability.

Concept Check 1-7

Ways and Means.

The Internal Revenue Code.

True. For any action to become law, both houses of Congress and the president must agree.

Concept Check 1-8

False. Statutory tax authority (the law) takes precedence over all other types of tax authority.

False. Revenue Procedures are issued by the IRS for use by all taxpayers.

IRS Treasury Regulations. See Table 1-6.

Concept Check 1-9

False. Tax cases can be appealed to the U.S. Supreme Court.

False. The taxpayer can file a suit with the Tax Court, the district court, or the Court of Federal Claims.

Tax. The advantage of using the Tax Court is that the taxpayer does not need to pay the IRS's proposed assessment prior to trial.

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CHAPTER 2

Concept Check 2-1

False. A taxpayer should use the simplest form that is appropriate for his or her situation. This approach will save the taxpayer and the IRS time and money.

True. Adjusted Gross Income (AGI) is an important concept because several deductions and credits depend upon the AGI amount. Some examples are the medical deduction and the Earned Income Credit.

Concept Check 2-2

True. Yes, couples in the process of obtaining a divorce (where the divorce is not yet final) can file a joint return.

True. The social security number and full name of the spouse must be shown on the return.

False. The surviving spouse must also meet another rule that states the household needs to be the principal place of abode for the entire year (except for temporary absences) of both the taxpayer and a child, stepchild, or adopted child who can be claimed as a dependent by the taxpayer.

Concept Check 2-3

True. The amount of the personal exemption is $4,050 for 2017. On a joint return, the taxpayer is entitled to two personal exemptions: one

exemption for himself or herself and another one for his or her spouse, for a total of $8,100.

Concept Check 2-4

In addition to the dependent taxpayer test, joint return test, and citizen or resident test, a qualifying child must meet the following five tests: relationship test, age test, residency test, support test, and special test for qualifying child of more than one taxpayer.

The child must be under 19 years of age, or under 24 years of age and a full-time student. For years after 2008, the child must be younger than the person claiming the dependency.

Concept Check 2-5

False. A taxpayer must meet all of the four tests in order to be a qualifying relative.

False. A qualifying relative cannot earn an amount equal to or greater than the exemption amount, which is $4,050.

Concept Check 2-6

The amount of the standard deduction is

Taxpayer is single, 42 years of age, and blind = 7,900 ($6,350 + $1,550).

Taxpayer is head of household, 37 years of age, and not blind = $9,350.

Taxpayers are married filing jointly, the husband is 67 and the wife is 61 years of age, and neither is blind = $13,950 ($12,700 + $1,250).

Concept Check 2-7

Tax for the single taxpayer is $4,728 and for the married taxpayers is $9,226.

The limitation for FICA (social security) for the year 2017 is $127,200.

Concept Check 2-8

The failure to file a tax return penalty does not apply because the taxpayer filed an extension before his or her return was due. However, the failure to pay does apply. The amount is $30 ([$3,000 × 0.5%] 2 months).

True. The IRS can assess criminal penalties in addition to civil penalties. The former are applicable to tax evasion, willful failure to collect or pay

tax, and willful failure to file a return.

CHAPTER 3

Concept Check 3-1

In general, an individual must recognize income on his or her tax return if a transaction meets all of the following three conditions: There must be an economic benefit; there must actually be a transaction that has reached a conclusion; and the income must not be tax-exempt income.

True. Certain income is statutorily excluded from taxation and will not be included in gross income even though the other two conditions are met. An example is tax-exempt interest.

Concept Check 3-2

True. According to Reg. § 1.61-1(a), income may be realized in any form, whether in money, property, or services.

True. Receipt of property or services serves to trigger income recognition. Furthermore, taxpayers recognize income even if they receive it indirectly.

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Concept Check 3-3

False. Interest is taxable if received from state or local bonds issued for private activities, such as convention centers, industrial parks, or stadiums.

False. Schedule B is required if an individual receives *over* $1,500 of interest for the tax year.

Concept Check 3-4

True. Qualified dividends (1) are made from the earnings and profits of the payer corporation and (2) are from domestic corporations or qualified foreign corporations.

False. Corporations normally pay dividends in the form of cash, but they may pay them in property or anything of economic value. The basis of the property received as a dividend in the hands of the shareholder is the

property's fair market value at the date of distribution.

Concept Check 3-5

The amount is $27,750 (22,000 + 4,500 + 1,250).

Concept Check 3-6

Items such as jury duty and gambling winnings are listed under line 21 of the Form 1040.

Concept Check 3-7

False. It is not taxable. This is an example of a *de minimis* benefit whose value is so small that keeping track of which employees received the benefit is administratively impractical.

True. It is not taxable. The individual must be a degree-seeking student at an educational institution and must use the proceeds for qualified tuition and related expenses (tuition, fees, books, supplies, and equipment). If the scholarship or fellowship payment exceeds permitted expenses, the excess is taxable income.

Concept Check 3-8

True. The law limits the ability of taxpayers to create debt instruments with interest rates that materially vary from market rates on the date the instrument is created. Imputing interest will reallocate payments such that more of the payment will be interest and less principal.

True. If someone purchases a debt instrument (such as a bond) from an issuer for an amount less than par, the transaction creates original issue discount (OID). The initial OID is equal to the difference between the acquisition price and the maturity value.

CHAPTER 4

Concept Check 4-1

At least half-time at an eligible educational institution.

Tuition and fees.

$135,000.

Concept Check 4-2

Self-employed.

Nontaxable.

Form 8889 and Form 1040.

Concept Check 4-3

False. Under current IRS regulations, moving expenses can be deducted only as a *for AGI,* or *above-the-line,* deduction.

False. In order to deduct moving expenses, taxpayers must meet both tests in addition to the employment test.

True. To the extent that the employer reimburses the employee for moving costs, those costs cannot be deducted. However, if the total moving expenses exceed the reimbursement, those expenses in excess of the reimbursement can be deducted.

Concept Check 4-4

Net earnings.

For 2017, the employee's portion is calculated at 7.65%.

$200,000.

Concept Check 4-5

False. For self-employed individuals, the deduction is 100% of the costs.

False. The limitation on this deduction is that taxpayers cannot deduct the cost of premiums that exceeds *net* earnings from self-employment.

True. If the taxpayer is entitled to participate in any subsidized health plan maintained by any employer of the taxpayer or of the taxpayer's spouse, a deduction is not allowed.

Concept Check 4-6

As an *above-the-line* deduction.

Form 1099-INT.

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Concept Check 4-7

False. Alimony payments can be made only in cash. If the payment

consists of property, it is a property settlement.

False. As long as the couple is legally separated and there is a written agreement requiring payments, it will be classified as alimony.

True. If alimony payments decrease sharply in the second or third year of payment, this is a signal that the nature of the payments might be a property settlement, not alimony.

Concept Check 4-8

900 hours.

$500.

Home schooling and non-athletic supplies for health or PE classes.

CHAPTER 5

Concept Check 5-1

10.0% of AGI.

Actually paid. Payment by credit card meets this standard.

Insurance reimbursement.

Age.

Concept Check 5-2

True. In addition, the two other criteria are that it must be on personal property and the property must be assessed, at a minimum, on an annual basis.

False. When property is sold during the year, both the buyer and the seller receive a deduction for a portion of the real estate tax paid according to the number of days each owner held the property.

False. The tax benefit rule states that if you receive a refund of that expense that was previously deducted on the tax return, you are required to include that refund in income when it is received.

True. But generally most taxpayers receive a greater benefit by taking the credit.

Concept Check 5-3

Acquire, construct, or substantially improve.

$1,000,000.

Net investment.

1%.

Concept Check 5-4

False. Charitable contributions can be taken only as an itemized deduction.

False. The overall limitation on the deductibility of charitable contributions is 50% of AGI. The 30% limit relates to the contribution of appreciated capital gain property.

True. If noncash gifts are worth over $500, the taxpayer must file Form 8283.

Concept Check 5-5

Sudden, unexpected, or unusual nature.

Form 4684 and then carried to Form 1040.

Two; $100.

10%.

Concept Check 5-6

False. The threshold is 2% of AGI.

True. The amount calculated there goes to line 21 of the Schedule A.

False. The law does allow a deduction for uniforms required for employment as long as they would not usually be worn away from work. The accountant's blue suit would not fall into this category. However, a police officer's uniform would qualify for the deduction.

Concept Check 5-7

Limit.

3%; 80%.

CHAPTER 6

Concept Check 6-1

False. Schedule C is used only for an activity in which the individual is

self-employed, not an employee.

False. Any income received by the self-employed taxpayer is taxable and should be included on Schedule C. Not all individuals or organizations are required to send a 1099-MISC to the self-employed individual.

True. If inventory is a material item, it must be accounted for using the accrual method of accounting. The cash method can be used for all other items.

Concept Check 6-2

Ordinary, necessary, and reasonable.

Illegal bribes, kickbacks, and other such payments; payments for certain lobbying and political expenses; payments for fines and penalties.

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Concept Check 6-3

$1,300. When an asset is transferred from personal use to business use, the depreciable basis is the lesser of cost or FMV at transfer.

$17,600. The adjusted basis at the end of year 1 is the cost less the accumulated depreciation ($22,000 − $4,400).

Concept Check 6-4

B. Autos are 5-year property under the MACRS rules.

C. An apartment complex is considered residential real property and thus has a 27.5-year life under the MACRS rules.

D. A warehouse is considered nonresidential real property and thus has a 39-year life under the MACRS rules.

Concept Check 6-5

False. A taxpayer must use the half-year convention for personal property unless more than 40% of the basis is purchased in the last quarter of the year; then mid- quarter is required. The taxpayer must use the mid-month convention for real property.

True. If more than 40% of the basis of personal property is purchased in the fourth quarter, the taxpayer must use the mid-quarter convention.

True. The only time the half-year convention is not used is when more

than 40% of the personal property is purchased in the fourth quarter.

False. Because an apartment complex is residential real property, the mid-month convention is required.

True. Once the convention is established, it never changes for an asset. Thus if one half-year of depreciation is taken in the year of purchase, then one half-year of depreciation should be taken in the year of disposal. The same is true for mid-quarter and mid-month assets.

Concept Check 6-6

$1,715. Equipment is a 7-year asset ($12,000 × 14.29%).

$1,049. 2018 would be the third year of depreciation, and the table percentage is 17.49% for year 3. But only one-half of a year of depreciation would be allowed ($12,000 × 17.49% × ½).

$9,501. An apartment complex is 27.5-year, mid-month property purchased in March. The appropriate percentage is the third column of Table 6A-6 ($330,000 × 2.879).

Concept Check 6-7

$12,000 in § 179 expense and $0 additional MACRS depreciation.

$510,000 in § 179 expense (up to the limit of $510,000 for 2017) and $3,573 in 7-year MACRS depreciation ($25,000 remaining basis × 14.29%).

Concept Check 6-8

C. $25,000 in § 179 expense and $2,800 in MACRS depreciation ([$39,000 − $25,000] × 20%) is allowed. The total is $27,800.

C. $25,000 × 80% business use = $20,000 in § 179 expense and $2,224 in regular depreciation ([$39,000 × 80%] − $20,000 § 179) × 20% (5-year MACRS percentage). The total is $22,240.

Concept Check 6-9

False. The standard mileage rate incorporates depreciation into the mileage rate. A taxpayer uses either the standard mileage rate or the actual costs of operations including depreciation.

False. Transportation costs are deductible for all business travel except for commuting.

True. Once overnight rest is required with business travel, the taxpayer can then deduct meals and lodging.

True. Subject to the 50% limitation, a taxpayer can use the standard per diems of $51/day. The per diems are higher in high-cost areas.

True. Subject to the 50% limitation, a taxpayer can deduct entertainment costs for clients assuming they are ordinary, necessary, and reasonable.

Concept Check 6-10

D. The external painting is an indirect cost and is deductible based on the business use ratio ($3,000 × 20%). The office painting is a direct expense and is 100% deductible.

B. The home office expenses are deductible only to the extent of Schedule C income. Clients do not have to be seen at the home office, and § 179 is never allowed on real property. The home office can be depreciated over 27.5 years as residential real estate.

C. A business casualty loss when a property is partially destroyed is calculated using the lesser of the decrease in FMV or the adjusted basis of the property.

Concept Check 6-11

True. Typically, if an activity has shown a profit for three of five consecutive years, the activity is not considered a hobby. The burden of proving the activity is a hobby shifts to the IRS.

True. The expenses from a hobby can be used only to offset income from the hobby. Thus no net loss can occur.

True. Expenses such as real estate taxes and mortgage interest must be the first expenses deducted from hobby income. Otherwise these expenses could be deducted elsewhere (Schedule A) once all of the hobby income was offset.

False. If the educational costs help qualify the taxpayer for a new trade or business, the educational costs are not deductible.

Concept Check 6-12

$6,076. $43,000 × 92.35% × 15.3%.

$1,152. $43,000 × 92.35% × 2.9%. Kia has already paid through her employer the maximum amount of wages subject to social security. Kia still must pay Medicare because there is no limit.

$5,306. $43,000 × 92.35% × 2.9% = $1,152 for Medicare. Because Kia has not reached the social security limit, an additional $4,924 of social security must be paid ($127,200 − $85,000 = $42,200 limit left; $43,000 SE × 92.35% × 12.4%).

CHAPTER 7

Concept Check 7-1

False. The gain or loss is the difference between the amount realized from the sale and the asset's adjusted basis.

False. Form 4797 is used to record the gain or loss from an asset used in a trade or business.

True.

Concept Check 7-2

False. Inventory sold by a company appears on the income statement as the cost of goods sold and then on Schedule C for a sole proprietorship.

C. Property used in a trade or business.

False. Assets considered short-term are held for less than one year and are considered to be ordinary income assets.

True.

True.

Concept Check 7-3

False. When an ordinary asset is sold, the gain or loss is termed an "ordinary gain or loss."

The distinction is important because of the preferential tax rate treatment on capital gains versus ordinary gains.

True.

Concept Check 7-4

B. The tax treatment of a capital asset varies only if there is a gain.

Losses are included for the netting process.

True.

False. Inherited property is always long-term property regardless of how long the asset belonged to the decedent or beneficiary.

False. The surtax is charged when MAGI is over the threshold amounts.

Collectible gains	28%
§ 1202 gains	28%
Unrecaptured § 1250 gains	25%
Taxpayer’s regular rate ≥ 25% and < 39.6%	15%
Taxpayer’s regular rate < 25%	0%
Taxpayer’s regular rate is > 35%	20%

Concept Check 7-5

False. Losses are ordinary and fully deductible.

True.

Depreciation recapture rules transform some or all of a § 1231 gain into an ordinary gain.

§ 1245 property is personal trade or business property subject to depreciation. § 1250 property includes depreciable real property used in a trade or business that has never been considered § 1245 property.

Unrecaptured gain is taxed at a 25% rate for all straight-line depreciation taken on the property. Recaptured gain is taxed at ordinary rates to the extent the depreciation taken exceeds straight-line depreciation.

Concept Check 7-6

First in, first out—The first shares purchased are the first shares sold. This results in the largest gain when the value of the mutual fund units appreciates.

Specific identification—The taxpayer specifies exactly which units are for sale from the fund.

Average basis—The taxpayer takes the total cost basis and divides by the total number of units to get an average cost per unit (single category).

True.

False. The basis for property given as a gift depends on whether the FMV was higher or lower than the basis at the date of the gift.

False. The tax treatment of a gain on the sale of inherited property is always considered to be held long term regardless of the holding period of the deceased.

CHAPTER 8

Concept Check 8-1

True. Income and expenses associated with rental property are reported on Schedule E unless the taxpayer is a real estate professional and the rental activity is considered a trade or business.

False. All ordinary and necessary expenses related to a rental property are deductible in the current year, but capital improvements must be depreciated and deducted over the useful life of the asset category.

True. Rental property is depreciated over 27.5 years for residential and 39 years for nonresidential using the straight-line method.

False. The income and expenses associated with a rental property that is considered to be the taxpayer's trade or business are reported on Schedule C.

False. Expenses paid by the tenant or services provided in lieu of rent payments are components of rental income and must be reported at the fair market value.

Concept Check 8-2

B. Primarily personal; rented less than 15 days.

A. Primarily rental; rented 15 days or more or personal use was less than 10% of rental days (i.e., less than 18 days).

A. Primarily rental; rented 15 days or more and personal use was no more than 14 days. Only 9 days of the 16 days are considered personal days because Darren worked for 7 days repairing the property.

C. Personal/rental; rented 15 days or more and personal use was more than 14 days.

Concept Check 8-3

Personal/rental. The property was rented for 75 days and used for

personal use for 30 days. Rental property used for personal use more than 14 days (or 10% of days rented) and rented for 15 days or more is categorized as personal/rental.

$6,000 × 75/105 =	$4,286
1,000 × 75/105 =	714
1,400 × 75/105 =	1,000
800 × 75/105 =	571
2,000 × 75/105 =	1,429
Allocated expenses	$8,000

$6,000 × 75/365 =	$1,233
1,000 × 75/365 =	205
1,400 × 75/105 =	1,000
800 × 75/105 =	571
2,000 × 75/105 =	1,429
Allocated expenses	$4,438

4.	Rental income	$15,000
	Allocated expenses	8,000
	Net income	$ 7,000

Concept Check 8-4

Schedule C. Royalty received as a result of a trade or business should be reported on Schedule C.

Schedule E. Royalty produced by an investment should be reported on Schedule E.

Schedule C. Readings based on books written are not royalties but payment for services performed and should be reported on Schedule C.

Schedule E. Royalties are payments received for the right to use intangible property. The payments are for the use of Jane's textbook.

Concept Check 8-5

True. Flow-through entities supply each owner with a K-1 indicating his or her share of income, expenses, or losses.

False. Ordinary income from an S corporation is not considered self-employment income.

True. Partners, shareholders, or owners of flow-through entities must report their K-1 information on their individual tax returns on a Form E.

True. A taxpayer is allowed up to $25,000 of rental losses against other nonpassive income subject to limitations and phaseouts.

CHAPTER 9

Concept Check 9-1

$600
$4,500 is more than maximum allowed, so use $3,000 × 20% = $600.

$4,500
$500 × 9 months = $4,500; although expenses of $6,000 do not exceed the maximum allowed, the amount used cannot be greater than $4,500 because Katie is a student.

$570
$2,900 − $1,000 = $1,900 × 30% = $570

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Concept Check 9-2

1. $150

Base amount	$7,500
Less social security	1,000
Less ½ of AGI over $10,000	5,500
Allowable base amount	1,000
Applicable %	× 15%
Credit	$ 150

Concept Check 9-3

$ 580
$2,900 × 20% = $580

$1,113
100% of first $2,000 and 25% of second $900 is the credit allowed of $2,225. However, the credit is phased out due to AGI.
$2,225 × ($90,000 − $85,000/$10,000) = $1,113

$0
Her AGI is greater than the maximum phaseout amount.

$740
($1,600 + $2,100) × 20% = $740

Concept Check 9-4

$2,240
($8,000/$63,000) × $17,640 = $2,240 (less than foreign tax paid of $2,500)

Concept Check 9-5

$1,900
$1,000 per child × 2 = $2,000; however, limitations apply due to AGI ($112,000 − $110,000)/$1000 = 2; therefore, $2,000 − (2 × $50) = $1,900

Concept Check 9-6

$150
$1,500 × 10% = $150

$1,000
$2,000 × 50% = $1,000 ($2,200 over the maximum allowed)

Concept Check 9-7

$ 0 in 2016.
$13,570 in 2017.
$10,500 + $3,950 = $14,450; however, the maximum allowed is $13,570.

$13,075
$16,000 is more than the maximum of $13,570, so use $13,570. The credit must be phased out because of AGI as follows:
$13,570 × ([$243,540 − $205,000]/$40,000) × $13,570 = $13,075

Concept Check 9-8

$3,400

$2,110
$3,400 (maximum credit) − ([$32,000 − $23,930] × 15.98%) = $2,110

3a. $5,616

3b. $4,816 refund
$5,616 credit − $800 tax liability = $4,816 refund; EIC is a refundable credit.

Concept Check 9-9

No. The premium tax credit is only available to taxpayers with household

income between 100% and 400% of the federal poverty level for the taxpayer's family size.

.0966

CHAPTER 10

Concept Check 10-1

True.

True.

Concept Check 10-2

False. They are also levied on noncash compensation as well as cash compensation other than through wages and salary.

False. Form W-4 is completed by the employee so the employer knows how much to withhold in federal income tax from the employee's compensation.

$52 if you use the wage bracket table, $51.03 if you use the percentage method.

$7,886.40 (limit $127,300) in social security and $1,892.25 in Medicare taxes (no limit).

False. Only tips in excess of $20 per month are subject to tax withholding.

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Concept Check 10-3

False. New employers start as monthly schedule depositors. If in any one day tax liability equals $100,000, they become semiweekly schedule depositors.

False. The lookback period runs from the quarters starting July 1 of the current year through June 30 of the next year.

True.

False. A penalty is assessed only on the amount of tax that was not deposited on time.

True.

Concept Check 10-4

True.

A.

Individuals who employ household workers and do not withhold any taxes during the year. The schedule is attached to the taxpayer's Form 1040.

They paid any one household employee wages of $2,000 or more in 2017, federal income taxes were withheld from employee wages, and household wages of at least $1,000 were paid to all household workers combined in any calendar quarter in 2016 or 2017.

Concept Check 10-5

True.

Copy A is sent to the Social Security Administration along with Form W-3, which is the transmittal form. They are due January 31, 2018.

An employer who must correct an employee's W-2 must file Forms W-2C and W-3C as soon as possible.

The penalties for incorrectly preparing W-2s range from $50 per return to $260 per return with a maximum depending on the size of the business. Also a penalty of $530 per return (with no maximum) for intentional disregard for filing requirements.

Concept Check 10-6

Method 1: Withhold at a flat rate of 25%. If taxes are withheld from regular wages, add the two amounts together, calculate the tax as if they are one payment, and subtract the amount of withholding already taken out of the employee's wages. Method 2: If taxes are not already withheld from regular wages, add the two amounts together, and calculate the tax as if they are one payment.

True.

Form W-9 is used for U.S. persons (including resident aliens) to document their taxpayer identification number (TIN). This form must be on file by the payer.

$50 for each failure unless the failure is due to reasonable cause, not to

willful neglect. If the taxpayer makes false statements with no reasonable basis that result in backup withholding, a penalty of $500 is assessed. There can also be criminal penalties including fines and imprisonment.

False. There is no way of knowing whether the taxpayer will overpay and have a refund. The estimated payments contribute by having taxpayers pay additional taxes to limit the amount of possible underpayment.

CHAPTER 11

Concept Check 11-1

False. Tax is only delayed (deferred), not forgiven.

Distribution.

False. It is an example of an employer-sponsored plan.

Employer-sponsored plans include qualified pension and profit-sharing plans, 401(k) or 403(b) plans, Keogh plans, SEPs, and SIMPLE plans. Choose any two.

True.

Concept Check 11-2

Defined benefit, defined contribution.

False. Some plans require employee contributions and some do not.

$18,000.

True. In fact, they can be used only by self-employed individuals.

True.

Concept Check 11-3

Traditional IRA and Roth IRA.

$6,500.

False. As long as neither individual is an active participant in an employer plan, a deductible contribution is permitted regardless of the amount of AGI.

True.

Concept Check 11-4

True.

$2,000.

$95,000. The phaseout is complete when AGI reaches $110,000.

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Concept Check 11-5

True.

True.

210.

310.

True.

Concept Check 11-6

True.

True.

True.

False. Coverdell distributions must be used for higher education expenses (subject to certain restrictions). If not, the distributions are taxable.

Concept Check 11-7

An annuity is a series of payments under a contract.

False.

True.

CHAPTER 12

Concept Check 12-1

True. A gain is never recognized with a nontaxable like-kind exchange unless the taxpayer receives boot. Then gain is recognized to the lesser of the realized gain or the FMV of the boot received.

True. Those are the three conditions necessary to execute a nontaxable like-kind exchange.

False. The taxpayer has 45 days to identify the replacement property and 180 days to actually receive the replacement property.

True. The basis in the replacement property is the adjusted basis of the property given up, plus the basis of boot given, plus gain recognized, less the FMV of boot received. This sum is typically the FMV of the property received less the postponed gain.

Concept Check 12-2

$55,000. If the building is not replaced, the insurance proceeds are treated as sale proceeds and the gain is recognized in full.

Three years. The typical replacement period is two years. However, for real property held for use in a trade or business, the replacement period increases to three years.

$10,000 gain recognized. The realized gain of $55,000 is recognized to the lesser of the proceeds not used for replacement or the realized gain. In this case, the amount not used is the lesser of the two ($10,000).

$0 gain recognized. All of the proceeds were used to replace the property.

$60,000 is the adjusted basis. The basis is calculated as the cost of the new asset less the deferred gain ($115,000 − $55,000 deferred gain).

Concept Check 12-3

A. The gross profit percentage is calculated by dividing the gross profit by the gross sales prices ($10,000/ $30,000 = 33.3%).

B. The income recognized is $1,667 (the amount received in year two of $5,000 × 33.3% gross profit percentage).

Concept Check 12-4

True. The maximum gain exclusion is $500,000 for married taxpayers who file a joint return.

False. If the move is caused by an employment change or for health reasons, a taxpayer is eligible for some reduced exclusion. The exclusion is calculated by taking a ratio of the number of days used as a personal residence and dividing it by 730 days.

False. Johnny would still be allowed to exclude his gain but only to the maximum exclusion of $250,000.

Concept Check 12-5

$0. Because Leslie sold the stock to her brother, the related-party rules disallow any loss deduction on the sale by Leslie.

A. Leslie could deduct $2,000 in capital losses. In order for a corporation (or other entity) to be considered a related party, Leslie would have to have control of the corporation (greater than 50% ownership).
B. $0. Because Leslie now has control of the corporation, she is considered a related party and the loss would be disallowed.

The purpose of the wash sale rules is to disallow a tax loss where the ownership of a company is not reduced. Thus if a taxpayer buys similar stock within 30 days of a stock sale (before or after), any loss on the sale is disallowed.

CHAPTER 13

Concept Check 13-1

D. All of the above increase the at-risk of a taxpayer. See Table 13-1 for all of the increases and decreases of at-risk.

A. Nonrecourse debt does not increase the taxpayer's atrisk. Nonrecourse debt is debt that the taxpayer is not personally liable for.

C. The loss is indefinitely carried forward and can be deducted once the taxpayer gets additional at-risk.

Concept Check 13-2

True. The only way a rental property is not a passive activity is when the taxpayer is a real estate professional. A rental business can qualify for nonpassive treatment if more than one-half of the personal services performed in a business during the year is performed in a real property trade or business and the taxpayer performs more than 750 hours of services in the activity.

True. Passive losses are allowed only to the extent of passive income. One exception is the $25,000 offset for rental properties.

False. The $25,000 offset is limited to $25,000 and is phased out after a taxpayer's AGI reaches $100,000.

True. Any suspended passive losses are allowed when the activity is sold.

Concept Check 13-3

In order for a loss to be deducted, it must first be allowed under the at-risk rules. Once the loss is allowed under the at-risk rules, the passive loss rules are applied.

The main reason is that passive losses are allowed when an activity is sold or disposed of. Thus if a taxpayer were considering the sale of a passive activity, he or she could lump all suspended passive losses on one activity and sell it. All of the losses would then be allowed. The allocation to all loss activities stops this potential abuse.

The taxpayer is eligible for the $25,000 offset for rental losses. However, the $25,000 limit is phased out once the taxpayer's AGI reaches $100,000 ([$105,000 − $100,000] × ½ = $2,500). Thus only $22,500 of the rental loss would be allowed.

Concept Check 13-4

True. The AGI floor for medical expenses is 10% for AMT purposes and regular tax for most taxpayers. Some taxpayers over 65 still get the 7.5% floor until after the 2017 tax year.

True. No taxes are allowed as a deduction for AMT. Any taxes deducted on the regular return are added back as a positive adjustment for AMT.

True. Personal exemptions are added as a positive adjustment for AMT purposes.

True. If AMTI is greater than $187,800, the AMT rate is 28%.

CHAPTER 14

Concept Check 14-1

True. The only time gain is recognized by a contributing partner is when the partner receives an interest for services or when he or she is released of a liability in excess of basis.

True. The basis of the assets typically carries over from the partner to the partnership.

False. The basis is dependent on the basis of the assets the individual partners contributed to the partnership. One partner could have a $0 basis

while the other partner might have $100,000, yet both share 50% in the profit and loss of the partnership.

False. Gain must be recognized to the extent of the FMV of the partnership interest received for services.

True. An increase or decrease in partnership liabilities is treated as a cash contribution or cash distribution and thus increases or decreases partnership basis.

Concept Check 14-2

D. All of the above can be deducted from partnership income to determine the net income or loss from the partnership.

C. Any form of partnership files a Form 1065 informational return each year.

D. A guaranteed payment is a payment, usually for services, that is determined without regard to partnership income and is deductible by the partnership.

Concept Check 14-3

All income and expense items of a partnership that may be treated differently at the partner level must be "separately stated." Rental income/loss, capital gains/losses, and charitable contributions all can be treated differently at the partner level. For example, an individual partner can take up to $3,000 of capital losses against ordinary income while a corporate partner in the same partnership cannot.

A partner is not an employee of the partnership. Thus income received by the partner from the partnership has no social security or Medicare withheld by the partnership.

Concept Check 14-4

True. These are two of the uses of basis. Basis is also used to determine the basis (or whether a gain is recognized) of property distributed.

False. If the basis is not increased by tax-exempt income, then the exempt income will eventually be taxed when the partnership interest is sold. The lower basis will cause a higher gain upon sale.

False. The basis is first reduced by all adjustments except for losses, then money distributed, and then the basis of any property distributed. After those items, any basis remaining is used to determine the deductibility of

losses.

False. The basis is always increased by the partner's share of recourse debt.

Concept Check 14-5

B. If a cash distribution or a release of liabilities exceeds basis, the partner will have a gain on a distribution from the partnership.

B. $12,000—the furniture would be reduced to the basis left in the partnership.

A. $8,000—the basis in the partnership is first reduced by the cash distribution. That leaves $8,000 for the furniture.

Concept Check 14-6

A. Shelly's recognized gain would be $0. She did not receive cash in excess of her basis.
B. Shelly's basis in the assets would be as follows:

Cash	$9,000
Inventory	$6,000
Equipment ($15,000 × $8,000/$20,000)	$6,000
Land ($15,000 × $12,000/$20,000)	$9,000

A. $99,000 ($55,000 beginning basis + $18,000 + $26,000)
B. $8,000 ($107,000 sales price − $99,000 *basis*)
C. Because the partnership interest is a capital asset and there was no mention of inventory or receivables in the partnership, the gain would be a long-term capital gain.

CHAPTER 15

Concept Check 15-1

False. Some corporations are prohibited from using the cash basis. Corporations with average annual revenues over $5 million must use the accrual basis. Corporations with inventory must use the accrual basis at least for sales and cost of goods sold.

The 15th day of the fourth month after the fiscal year end.

False. In the first year of operation, a corporation establishes its tax year. Although many corporations choose December 31, that date is not required.

Concept Check 15-2

True. Although an exchange of cash or property can be taxable, if the 80% rule is met, the formation activities are generally tax-free.

The basis in the hands of the shareholder plus any gain recognized by the shareholder.

$40,000. His basis in the stock is his carryover basis in the land.

Concept Check 15-3

False. Corporations cannot report a net capital loss whereas individuals can take up to $3,000 in capital losses in any tax year.

$176,800. Tax liability is equal to $113,900 plus 34% of the amount of taxable income over $335,000.

$39,000. A corporation can take a charitable contribution in an amount not to exceed 10% of taxable income before charitable contribution.

False. Although organizational expenses are deductible over 180 months or more, the corporation must make an affirmative election in its first tax return in order to do so.

2, 20.

Concept Check 15-4

True. By definition, a dividend is a distribution from the earnings and profits of a corporation. Dividends are taxable to the shareholder. If a distribution is in excess of the earnings and profits of the corporation, it is not a dividend. It may or may not be taxable depending on the stockholder's basis in his or her stock.

False. Property dividends are taxed on the fair value of the property received by the stockholder.

$10,000. The amount of the dividend cannot exceed the earnings and profits of the corporation.

Concept Check 15-5

False. Corporations with total receipts and total assets under $250,000 are not required to complete Schedule L.

True.

Negative. Schedule M-1 reconciles from book income to tax income. There is more depreciation on the tax return than on the books. That means book income needs to be reduced to arrive at taxable income.

Concept Check 15-6

80%.

Five.

$40,000.

Concept Check 15-7

False. Not only must a corporation meet tests in addition to the 100 shareholder limit, the corporation must also affirmatively elect Subchapter S status.

True. While there are some differences, the tax treatments of a partnership and a Subchapter S corporation are similar.

1120S.

Not taxable. Subchapter S dividends are not taxable to a shareholder.

False. Corporate debt does not affect shareholders’ basis in their stock.

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Appendix D

2017 Tax Table

Example. Mr. and Mrs. Reynolds are filing a joint return. Their taxable income on Form 1040A, line 27, is $25,300. First, they find the $25,300-25,350 taxable income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the taxable income line and filing status column meet is $2,866. This is the tax amount they should enter on Form 1040A, line 28.

Sample Table

At Least	But Less Than	Single	Married filing jointly*	Married filing separately	Head of a household
		Your tax is—			
25,200	25,250	3,318	2,851	3,318	3,116
25,250	25,300	3,325	2,859	3,325	3,124
25,300	25,350	3,333	2,866	3,333	3,131
25,350	25,400	3,340	2,874	3,340	3,139

If line 27 (taxable income) is— At least	But less than	And you are— Single	Married filing jointly*	Married filing separately	Head of a household
		Your tax is—			
0	5	0	0	0	0
5	15	1	1	1	1
15	25	2	2	2	2
25	50	4	4	4	4
50	75	6	6	6	6
75	100	9	9	9	9
100	125	11	11	11	11
125	150	14	14	14	14
150	175	16	16	16	16
175	200	19	19	19	19
200	225	21	21	21	21
225	250	24	24	24	24
250	275	26	26	26	26
275	300	29	29	29	29
300	325	31	31	31	31
325	350	34	34	34	34
350	375	36	36	36	36
375	400	39	39	39	39
400	425	41	41	41	41
425	450	44	44	44	44
450	475	46	46	46	46
475	500	49	49	49	49
500	525	51	51	51	51
525	550	54	54	54	54
550	575	56	56	56	56
575	600	59	59	59	59
600	625	61	61	61	61
625	650	64	64	64	64
650	675	66	66	66	66
675	700	69	69	69	69
700	725	71	71	71	71
725	750	74	74	74	74
750	775	76	76	76	76
775	800	79	79	79	79
800	825	81	81	81	81
825	850	84	84	84	84
850	875	86	86	86	86
875	900	89	89	89	89
900	925	91	91	91	91
925	950	94	94	94	94
950	975	96	96	96	96
975	1,000	99	99	99	99
1,000					
1,000	1,025	101	101	101	101
1,025	1,050	104	104	104	104
1,050	1,075	106	106	106	106
1,075	1,100	109	109	109	109
1,100	1,125	111	111	111	111
1,125	1,150	114	114	114	114
1,150	1,175	116	116	116	116
1,175	1,200	119	119	119	119
1,200	1,225	121	121	121	121
1,225	1,250	124	124	124	124
1,250	1,275	126	126	126	126
1,275	1,300	129	129	129	129
1,300	1,325	131	131	131	131
1,325	1,350	134	134	134	134
1,350	1,375	136	136	136	136
1,375	1,400	139	139	139	139
1,400	1,425	141	141	141	141
1,425	1,450	144	144	144	144
1,450	1,475	146	146	146	146
1,475	1,500	149	149	149	149
1,500	1,525	151	151	151	151
1,525	1,550	154	154	154	154
1,550	1,575	156	156	156	156
1,575	1,600	159	159	159	159
1,600	1,625	161	161	161	161
1,625	1,650	164	164	164	164
1,650	1,675	166	166	166	166
1,675	1,700	169	169	169	169
1,700	1,725	171	171	171	171
1,725	1,750	174	174	174	174
1,750	1,775	176	176	176	176
1,775	1,800	179	179	179	179
1,800	1,825	181	181	181	181
1,825	1,850	184	184	184	184
1,850	1,875	186	186	186	186
1,875	1,900	189	189	189	189
1,900	1,925	191	191	191	191
1,925	1,950	194	194	194	194
1,950	1,975	196	196	196	196
1,975	2,000	199	199	199	199
2,000					
2,000	2,025	201	201	201	201
2,025	2,050	204	204	204	204
2,050	2,075	206	206	206	206
2,075	2,100	209	209	209	209
2,100	2,125	211	211	211	211
2,125	2,150	214	214	214	214
2,150	2,175	216	216	216	216
2,175	2,200	219	219	219	219
2,200	2,225	221	221	221	221
2,225	2,250	224	224	224	224
2,250	2,275	226	226	226	226
2,275	2,300	229	229	229	229
2,300	2,325	231	231	231	231
2,325	2,350	234	234	234	234
2,350	2,375	236	236	236	236
2,375	2,400	239	239	239	239
2,400	2,425	241	241	241	241
2,425	2,450	244	244	244	244
2,450	2,475	246	246	246	246
2,475	2,500	249	249	249	249
2,500	2,525	251	251	251	251
2,525	2,550	254	254	254	254
2,550	2,575	256	256	256	256
2,575	2,600	259	259	259	259
2,600	2,625	261	261	261	261
2,625	2,650	264	264	264	264
2,650	2,675	266	266	266	266
2,675	2,700	269	269	269	269
2,700	2,725	271	271	271	271
2,725	2,750	274	274	274	274
2,750	2,775	276	276	276	276
2,775	2,800	279	279	279	279
2,800	2,825	281	281	281	281
2,825	2,850	284	284	284	284
2,850	2,875	286	286	286	286
2,875	2,900	289	289	289	289
2,900	2,925	291	291	291	291
2,925	2,950	294	294	294	294
2,950	2,975	296	296	296	296
2,975	3,000	299	299	299	299

(Continued)

* This column must also be used by a qualifying widow(er).

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
3,000					
3,000	3,050	[illegible]	303	303	[illegible]
3,050	3,100	308	308	308	[illegible]
3,100	3,150	[illegible]	313	[illegible]	[illegible]
3,150	3,200	[illegible]	318	[illegible]	[illegible]
3,200	3,250	[illegible]	323	[illegible]	[illegible]
3,250	3,300	[illegible]	328	[illegible]	[illegible]
3,300	3,350	333	333	333	[illegible]
3,350	3,400	338	338	[illegible]	[illegible]
3,400	3,450	343	343	[illegible]	[illegible]
3,450	3,500	348	348	348	[illegible]
3,500	3,550	[illegible]	353	[illegible]	[illegible]
3,550	3,600	[illegible]	358	[illegible]	[illegible]
3,600	3,650	[illegible]	363	[illegible]	[illegible]
3,650	3,700	[illegible]	368	[illegible]	[illegible]
3,700	3,750	[illegible]	373	[illegible]	[illegible]
3,750	3,800	[illegible]	[illegible]	[illegible]	[illegible]
3,800	3,850	[illegible]	[illegible]	[illegible]	[illegible]
3,850	3,900	[illegible]	[illegible]	[illegible]	[illegible]
3,900	3,950	[illegible]	[illegible]	[illegible]	[illegible]
3,950	4,000	[illegible]	[illegible]	[illegible]	[illegible]
4,000					
4,000	4,050	403	403	403	403
4,050	4,100	408	408	408	408
4,100	4,150	413	413	413	413
4,150	4,200	418	418	418	418
4,200	4,250	423	423	423	423
4,250	4,300	428	428	428	428
4,300	4,350	433	433	433	433
4,350	4,400	438	438	438	438
4,400	4,450	443	443	443	443
4,450	4,500	448	448	448	448
4,500	4,550	453	453	453	453
4,550	4,600	458	458	458	458
4,600	4,650	463	463	463	463
4,650	4,700	468	468	468	468
4,700	4,750	473	473	473	473
4,750	4,800	[illegible]	[illegible]	[illegible]	[illegible]
4,800	4,850	[illegible]	[illegible]	[illegible]	[illegible]
4,850	4,900	[illegible]	[illegible]	[illegible]	[illegible]
4,900	4,950	[illegible]	[illegible]	[illegible]	[illegible]
4,950	5,000	[illegible]	[illegible]	[illegible]	[illegible]
5,000					
5,000	5,050	503	503	503	503
5,050	5,100	508	508	508	508
5,100	5,150	513	513	513	513
5,150	5,200	518	518	518	518
5,200	5,250	523	523	523	523
5,250	5,300	528	528	528	528
5,300	5,350	533	533	533	533
5,350	5,400	538	538	538	538
5,400	5,450	543	543	543	543
5,450	5,500	548	548	548	548
5,500	5,550	553	553	553	553
5,550	5,600	558	558	558	558
5,600	5,650	563	563	563	563
5,650	5,700	568	568	568	568
5,700	5,750	573	573	573	573
5,750	5,800	[illegible]	[illegible]	[illegible]	[illegible]
5,800	5,850	[illegible]	[illegible]	[illegible]	[illegible]
5,850	5,900	[illegible]	[illegible]	[illegible]	[illegible]
5,900	5,950	[illegible]	[illegible]	[illegible]	[illegible]
5,950	6,000	[illegible]	[illegible]	[illegible]	[illegible]
6,000					
6,000	6,050	[illegible]	[illegible]	603	603
6,050	6,100	[illegible]	[illegible]	608	608
6,100	6,150	[illegible]	[illegible]	[illegible]	613
6,150	6,200	[illegible]	[illegible]	[illegible]	618
6,200	6,250	[illegible]	[illegible]	[illegible]	623
6,250	6,300	[illegible]	[illegible]	628	628
6,300	6,350	[illegible]	[illegible]	[illegible]	633
6,350	6,400	[illegible]	[illegible]	[illegible]	638
6,400	6,450	[illegible]	[illegible]	[illegible]	643
6,450	6,500	[illegible]	[illegible]	[illegible]	648
6,500	6,550	[illegible]	[illegible]	[illegible]	653
6,550	6,600	[illegible]	[illegible]	[illegible]	658
6,600	6,650	[illegible]	[illegible]	[illegible]	663
6,650	6,700	[illegible]	[illegible]	[illegible]	668
6,700	6,750	[illegible]	[illegible]	[illegible]	673
6,750	6,800	[illegible]	[illegible]	[illegible]	[illegible]
6,800	6,850	[illegible]	[illegible]	[illegible]	[illegible]
6,850	6,900	[illegible]	[illegible]	[illegible]	[illegible]
6,900	6,950	[illegible]	[illegible]	[illegible]	[illegible]
6,950	7,000	[illegible]	[illegible]	[illegible]	[illegible]
7,000					
7,000	7,050	703	[illegible]	[illegible]	[illegible]
7,050	7,100	708	[illegible]	[illegible]	[illegible]
7,100	7,150	713	[illegible]	[illegible]	[illegible]
7,150	7,200	718	[illegible]	[illegible]	[illegible]
7,200	7,250	723	[illegible]	[illegible]	[illegible]
7,250	7,300	728	[illegible]	[illegible]	[illegible]
7,300	7,350	733	[illegible]	[illegible]	[illegible]
7,350	7,400	738	[illegible]	[illegible]	[illegible]
7,400	7,450	743	[illegible]	[illegible]	[illegible]
7,450	7,500	748	[illegible]	[illegible]	[illegible]
7,500	7,550	[illegible]	[illegible]	[illegible]	[illegible]
7,550	7,600	[illegible]	[illegible]	[illegible]	[illegible]
7,600	7,650	[illegible]	[illegible]	[illegible]	[illegible]
7,650	7,700	[illegible]	[illegible]	[illegible]	[illegible]
7,700	7,750	[illegible]	[illegible]	[illegible]	[illegible]
7,750	7,800	[illegible]	[illegible]	[illegible]	[illegible]
7,800	7,850	[illegible]	[illegible]	[illegible]	[illegible]
7,850	7,900	[illegible]	[illegible]	[illegible]	[illegible]
7,900	7,950	[illegible]	[illegible]	[illegible]	[illegible]
7,950	8,000	[illegible]	[illegible]	[illegible]	[illegible]
8,000					
8,000	8,050	803	803	803	803
8,050	8,100	808	808	808	808
8,100	8,150	813	813	813	813
8,150	8,200	818	818	818	818
8,200	8,250	823	823	823	823
8,250	8,300	828	828	828	828
8,300	8,350	833	833	833	833
8,350	8,400	838	838	838	838
8,400	8,450	843	843	843	843
8,450	8,500	848	848	848	848
8,500	8,550	853	853	853	853
8,550	8,600	858	858	858	858
8,600	8,650	863	863	863	863
8,650	8,700	868	868	868	868
8,700	8,750	873	873	873	873
8,750	8,800	[illegible]	[illegible]	[illegible]	[illegible]
8,800	8,850	[illegible]	[illegible]	[illegible]	[illegible]
8,850	8,900	[illegible]	[illegible]	[illegible]	[illegible]
8,900	8,950	[illegible]	[illegible]	[illegible]	[illegible]
8,950	9,000	[illegible]	[illegible]	[illegible]	[illegible]
9,000					
9,000	9,050	[illegible]	[illegible]	[illegible]	[illegible]
9,050	9,100	[illegible]	[illegible]	[illegible]	[illegible]
9,100	9,150	[illegible]	[illegible]	[illegible]	[illegible]
9,150	9,200	[illegible]	[illegible]	[illegible]	[illegible]
9,200	9,250	[illegible]	[illegible]	[illegible]	[illegible]
9,250	9,300	[illegible]	[illegible]	[illegible]	[illegible]
9,300	9,350	[illegible]	[illegible]	[illegible]	[illegible]
9,350	9,400	[illegible]	[illegible]	[illegible]	[illegible]
9,400	9,450	[illegible]	[illegible]	[illegible]	[illegible]
9,450	9,500	[illegible]	[illegible]	[illegible]	[illegible]
9,500	9,550	[illegible]	[illegible]	[illegible]	[illegible]
9,550	9,600	[illegible]	[illegible]	[illegible]	[illegible]
9,600	9,650	[illegible]	[illegible]	[illegible]	[illegible]
9,650	9,700	[illegible]	[illegible]	[illegible]	[illegible]
9,700	9,750	[illegible]	[illegible]	[illegible]	[illegible]
9,750	9,800	[illegible]	[illegible]	[illegible]	[illegible]
9,800	9,850	[illegible]	[illegible]	[illegible]	[illegible]
9,850	9,900	[illegible]	[illegible]	[illegible]	[illegible]
9,900	9,950	[illegible]	[illegible]	[illegible]	[illegible]
9,950	10,000	[illegible]	[illegible]	[illegible]	[illegible]
10,000					
10,000	10,050	[illegible]	[illegible]	[illegible]	[illegible]
10,050	10,100	[illegible]	[illegible]	[illegible]	[illegible]
10,100	10,150	[illegible]	[illegible]	[illegible]	[illegible]
10,150	10,200	[illegible]	[illegible]	[illegible]	[illegible]
10,200	10,250	[illegible]	[illegible]	[illegible]	[illegible]
10,250	10,300	[illegible]	[illegible]	[illegible]	[illegible]
10,300	10,350	[illegible]	[illegible]	[illegible]	[illegible]
10,350	10,400	[illegible]	[illegible]	[illegible]	[illegible]
10,400	10,450	[illegible]	[illegible]	[illegible]	[illegible]
10,450	10,500	[illegible]	[illegible]	[illegible]	[illegible]
10,500	10,550	[illegible]	[illegible]	[illegible]	[illegible]
10,550	10,600	[illegible]	[illegible]	[illegible]	[illegible]
10,600	10,650	[illegible]	[illegible]	[illegible]	[illegible]
10,650	10,700	[illegible]	[illegible]	[illegible]	[illegible]
10,700	10,750	[illegible]	[illegible]	[illegible]	[illegible]
10,750	10,800	[illegible]	[illegible]	[illegible]	[illegible]
10,800	10,850	[illegible]	[illegible]	[illegible]	[illegible]
10,850	10,900	[illegible]	[illegible]	[illegible]	[illegible]
10,900	10,950	[illegible]	[illegible]	[illegible]	[illegible]
10,950	11,000	[illegible]	[illegible]	[illegible]	[illegible]
11,000					
11,000	11,050	[illegible]	[illegible]	[illegible]	[illegible]
11,050	11,100	[illegible]	[illegible]	[illegible]	[illegible]
11,100	11,150	[illegible]	[illegible]	[illegible]	[illegible]
11,150	11,200	[illegible]	[illegible]	[illegible]	[illegible]
11,200	11,250	[illegible]	[illegible]	[illegible]	[illegible]
11,250	11,300	[illegible]	[illegible]	[illegible]	[illegible]
11,300	11,350	[illegible]	[illegible]	[illegible]	[illegible]
11,350	11,400	[illegible]	[illegible]	[illegible]	[illegible]
11,400	11,450	[illegible]	[illegible]	[illegible]	[illegible]
11,450	11,500	[illegible]	[illegible]	[illegible]	[illegible]
11,500	11,550	[illegible]	[illegible]	[illegible]	[illegible]
11,550	11,600	[illegible]	[illegible]	[illegible]	[illegible]
11,600	11,650	[illegible]	[illegible]	[illegible]	[illegible]
11,650	11,700	[illegible]	[illegible]	[illegible]	[illegible]
11,700	11,750	[illegible]	[illegible]	[illegible]	[illegible]
11,750	11,800	[illegible]	[illegible]	[illegible]	[illegible]
11,800	11,850	[illegible]	[illegible]	[illegible]	[illegible]
11,850	11,900	[illegible]	[illegible]	[illegible]	[illegible]
11,900	11,950	[illegible]	[illegible]	[illegible]	[illegible]
11,950	12,000	[illegible]	[illegible]	[illegible]	[illegible]

(Continued)

* This column must also be used by a qualifying widow(er)

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing sepa-rately	Head of a house-hold
		Your tax is—			
12,000					
12,000	12,050	[illegible]	[illegible]	1,338	[illegible]
12,050	12,100	1,345	[illegible]	1,345	[illegible]
12,100	12,150	[illegible]	[illegible]	[illegible]	[illegible]
12,150	12,200	[illegible]	[illegible]	[illegible]	[illegible]
12,200	12,250	[illegible]	[illegible]	[illegible]	[illegible]
12,250	12,300	[illegible]	1,228	[illegible]	[illegible]
12,300	12,350	[illegible]	1,233	[illegible]	[illegible]
12,350	12,400	[illegible]	1,238	[illegible]	[illegible]
12,400	12,450	[illegible]	1,243	[illegible]	[illegible]
12,450	12,500	[illegible]	1,248	[illegible]	[illegible]
12,500	12,550	[illegible]	1,253	[illegible]	[illegible]
12,550	12,600	[illegible]	1,258	[illegible]	[illegible]
12,600	12,650	[illegible]	1,263	[illegible]	[illegible]
12,650	12,700	[illegible]	1,268	[illegible]	[illegible]
12,700	12,750	[illegible]	1,273	[illegible]	[illegible]
12,750	12,800	[illegible]	1,278	[illegible]	[illegible]
12,800	12,850	[illegible]	1,283	[illegible]	[illegible]
12,850	12,900	[illegible]	1,288	[illegible]	[illegible]
12,900	12,950	[illegible]	1,293	[illegible]	[illegible]
12,950	13,000	[illegible]	1,298	[illegible]	[illegible]
13,000					
13,000	13,050	[illegible]	[illegible]	[illegible]	[illegible]
13,050	13,100	[illegible]	[illegible]	[illegible]	[illegible]
13,100	13,150	[illegible]	[illegible]	[illegible]	[illegible]
13,150	13,200	[illegible]	[illegible]	[illegible]	[illegible]
13,200	13,250	[illegible]	[illegible]	[illegible]	[illegible]
13,250	13,300	[illegible]	[illegible]	[illegible]	[illegible]
13,300	13,350	[illegible]	[illegible]	[illegible]	[illegible]
13,350	13,400	[illegible]	[illegible]	[illegible]	[illegible]
13,400	13,450	[illegible]	[illegible]	[illegible]	[illegible]
13,450	13,500	[illegible]	[illegible]	[illegible]	[illegible]
13,500	13,550	[illegible]	[illegible]	[illegible]	[illegible]
13,550	13,600	[illegible]	[illegible]	[illegible]	[illegible]
13,600	13,650	[illegible]	[illegible]	[illegible]	[illegible]
13,650	13,700	[illegible]	[illegible]	[illegible]	[illegible]
13,700	13,750	[illegible]	[illegible]	[illegible]	[illegible]
13,750	13,800	[illegible]	[illegible]	[illegible]	[illegible]
13,800	13,850	[illegible]	[illegible]	[illegible]	[illegible]
13,850	13,900	[illegible]	[illegible]	[illegible]	[illegible]
13,900	13,950	[illegible]	[illegible]	[illegible]	[illegible]
13,950	14,000	[illegible]	[illegible]	[illegible]	[illegible]
14,000					
14,000	14,050	[illegible]	[illegible]	[illegible]	[illegible]
14,050	14,100	[illegible]	[illegible]	[illegible]	[illegible]
14,100	14,150	[illegible]	[illegible]	[illegible]	[illegible]
14,150	14,200	[illegible]	[illegible]	[illegible]	[illegible]
14,200	14,250	[illegible]	[illegible]	[illegible]	[illegible]
14,250	14,300	[illegible]	[illegible]	[illegible]	[illegible]
14,300	14,350	[illegible]	[illegible]	[illegible]	[illegible]
14,350	14,400	[illegible]	[illegible]	[illegible]	[illegible]
14,400	14,450	[illegible]	[illegible]	[illegible]	[illegible]
14,450	14,500	[illegible]	[illegible]	[illegible]	[illegible]
14,500	14,550	[illegible]	[illegible]	[illegible]	[illegible]
14,550	14,600	[illegible]	[illegible]	[illegible]	[illegible]
14,600	14,650	[illegible]	[illegible]	[illegible]	[illegible]
14,650	14,700	[illegible]	[illegible]	[illegible]	[illegible]
14,700	14,750	[illegible]	[illegible]	[illegible]	[illegible]
14,750	14,800	[illegible]	[illegible]	[illegible]	[illegible]
14,800	14,850	[illegible]	[illegible]	[illegible]	[illegible]
14,850	14,900	[illegible]	[illegible]	[illegible]	[illegible]
14,900	14,950	[illegible]	[illegible]	[illegible]	[illegible]
14,950	15,000	[illegible]	[illegible]	[illegible]	[illegible]
15,000					
15,000	15,050	[illegible]	[illegible]	[illegible]	[illegible]
15,050	15,100	[illegible]	[illegible]	[illegible]	[illegible]
15,100	15,150	[illegible]	[illegible]	[illegible]	[illegible]
15,150	15,200	[illegible]	[illegible]	[illegible]	[illegible]
15,200	15,250	[illegible]	[illegible]	[illegible]	[illegible]
15,250	15,300	[illegible]	[illegible]	[illegible]	[illegible]
15,300	15,350	[illegible]	[illegible]	[illegible]	[illegible]
15,350	15,400	[illegible]	[illegible]	[illegible]	[illegible]
15,400	15,450	[illegible]	[illegible]	[illegible]	[illegible]
15,450	15,500	[illegible]	[illegible]	[illegible]	[illegible]
15,500	15,550	[illegible]	[illegible]	[illegible]	[illegible]
15,550	15,600	[illegible]	[illegible]	[illegible]	[illegible]
15,600	15,650	[illegible]	[illegible]	[illegible]	[illegible]
15,650	15,700	[illegible]	[illegible]	[illegible]	[illegible]
15,700	15,750	[illegible]	[illegible]	[illegible]	[illegible]
15,750	15,800	[illegible]	[illegible]	[illegible]	[illegible]
15,800	15,850	[illegible]	[illegible]	[illegible]	[illegible]
15,850	15,900	[illegible]	[illegible]	[illegible]	[illegible]
15,900	15,950	[illegible]	[illegible]	[illegible]	[illegible]
15,950	16,000	[illegible]	[illegible]	[illegible]	[illegible]
16,000					
16,000	16,050	[illegible]	[illegible]	[illegible]	[illegible]
16,050	16,100	[illegible]	[illegible]	[illegible]	[illegible]
16,100	16,150	[illegible]	[illegible]	[illegible]	[illegible]
16,150	16,200	[illegible]	[illegible]	[illegible]	[illegible]
16,200	16,250	[illegible]	[illegible]	[illegible]	[illegible]
16,250	16,300	[illegible]	[illegible]	[illegible]	[illegible]
16,300	16,350	[illegible]	[illegible]	[illegible]	[illegible]
16,350	16,400	[illegible]	[illegible]	[illegible]	[illegible]
16,400	16,450	[illegible]	[illegible]	[illegible]	[illegible]
16,450	16,500	[illegible]	[illegible]	[illegible]	[illegible]
16,500	16,550	[illegible]	[illegible]	[illegible]	[illegible]
16,550	16,600	[illegible]	[illegible]	[illegible]	[illegible]
16,600	16,650	[illegible]	[illegible]	[illegible]	[illegible]
16,650	16,700	[illegible]	[illegible]	[illegible]	[illegible]
16,700	16,750	[illegible]	[illegible]	[illegible]	[illegible]
16,750	16,800	[illegible]	[illegible]	[illegible]	[illegible]
16,800	16,850	[illegible]	[illegible]	[illegible]	[illegible]
16,850	16,900	[illegible]	[illegible]	[illegible]	[illegible]
16,900	16,950	[illegible]	[illegible]	[illegible]	[illegible]
16,950	17,000	[illegible]	[illegible]	[illegible]	[illegible]
17,000					
17,000	17,050	[illegible]	[illegible]	[illegible]	1,886
17,050	17,100	[illegible]	[illegible]	[illegible]	1,894
17,100	17,150	[illegible]	[illegible]	[illegible]	1,901
17,150	17,200	[illegible]	[illegible]	[illegible]	1,909
17,200	17,250	[illegible]	[illegible]	[illegible]	1,916
17,250	17,300	[illegible]	[illegible]	[illegible]	1,924
17,300	17,350	[illegible]	[illegible]	[illegible]	1,931
17,350	17,400	[illegible]	[illegible]	[illegible]	1,939
17,400	17,450	[illegible]	[illegible]	[illegible]	1,946
17,450	17,500	[illegible]	[illegible]	[illegible]	1,954
17,500	17,550	[illegible]	[illegible]	[illegible]	1,961
17,550	17,600	[illegible]	[illegible]	[illegible]	1,969
17,600	17,650	[illegible]	[illegible]	[illegible]	1,976
17,650	17,700	[illegible]	[illegible]	[illegible]	1,984
17,700	17,750	[illegible]	[illegible]	[illegible]	1,991
17,750	17,800	[illegible]	[illegible]	[illegible]	1,999
17,800	17,850	[illegible]	[illegible]	[illegible]	2,006
17,850	17,900	[illegible]	[illegible]	[illegible]	2,014
17,900	17,950	[illegible]	[illegible]	[illegible]	2,021
17,950	18,000	[illegible]	[illegible]	[illegible]	2,029
18,000					
18,000	18,050	[illegible]	[illegible]	[illegible]	[illegible]
18,050	18,100	[illegible]	[illegible]	[illegible]	[illegible]
18,100	18,150	[illegible]	[illegible]	[illegible]	[illegible]
18,150	18,200	[illegible]	[illegible]	[illegible]	[illegible]
18,200	18,250	[illegible]	[illegible]	[illegible]	[illegible]
18,250	18,300	[illegible]	[illegible]	[illegible]	[illegible]
18,300	18,350	[illegible]	[illegible]	[illegible]	[illegible]
18,350	18,400	[illegible]	[illegible]	[illegible]	[illegible]
18,400	18,450	[illegible]	[illegible]	[illegible]	[illegible]
18,450	18,500	[illegible]	[illegible]	[illegible]	[illegible]
18,500	18,550	[illegible]	[illegible]	[illegible]	[illegible]
18,550	18,600	[illegible]	[illegible]	[illegible]	[illegible]
18,600	18,650	[illegible]	[illegible]	[illegible]	[illegible]
18,650	18,700	[illegible]	[illegible]	[illegible]	[illegible]
18,700	18,750	[illegible]	[illegible]	[illegible]	[illegible]
18,750	18,800	[illegible]	[illegible]	[illegible]	[illegible]
18,800	18,850	[illegible]	[illegible]	[illegible]	[illegible]
18,850	18,900	[illegible]	[illegible]	[illegible]	[illegible]
18,900	18,950	[illegible]	[illegible]	[illegible]	[illegible]
18,950	19,000	[illegible]	[illegible]	[illegible]	[illegible]
19,000					
19,000	19,050	[illegible]	[illegible]	[illegible]	[illegible]
19,050	19,100	[illegible]	[illegible]	[illegible]	[illegible]
19,100	19,150	[illegible]	[illegible]	[illegible]	[illegible]
19,150	19,200	[illegible]	[illegible]	[illegible]	[illegible]
19,200	19,250	[illegible]	[illegible]	[illegible]	[illegible]
19,250	19,300	[illegible]	[illegible]	[illegible]	[illegible]
19,300	19,350	[illegible]	[illegible]	[illegible]	[illegible]
19,350	19,400	[illegible]	[illegible]	[illegible]	[illegible]
19,400	19,450	[illegible]	[illegible]	[illegible]	[illegible]
19,450	19,500	[illegible]	[illegible]	[illegible]	[illegible]
19,500	19,550	[illegible]	[illegible]	[illegible]	[illegible]
19,550	19,600	[illegible]	[illegible]	[illegible]	[illegible]
19,600	19,650	[illegible]	[illegible]	[illegible]	[illegible]
19,650	19,700	[illegible]	[illegible]	[illegible]	[illegible]
19,700	19,750	[illegible]	[illegible]	[illegible]	[illegible]
19,750	19,800	[illegible]	[illegible]	[illegible]	[illegible]
19,800	19,850	[illegible]	[illegible]	[illegible]	[illegible]
19,850	19,900	[illegible]	[illegible]	[illegible]	[illegible]
19,900	19,950	[illegible]	[illegible]	[illegible]	[illegible]
19,950	20,000	[illegible]	[illegible]	[illegible]	[illegible]
20,000					
20,000	20,050	[illegible]	[illegible]	[illegible]	[illegible]
20,050	20,100	[illegible]	[illegible]	[illegible]	[illegible]
20,100	20,150	[illegible]	[illegible]	[illegible]	[illegible]
20,150	20,200	[illegible]	[illegible]	[illegible]	[illegible]
20,200	20,250	[illegible]	[illegible]	[illegible]	[illegible]
20,250	20,300	[illegible]	[illegible]	[illegible]	[illegible]
20,300	20,350	[illegible]	[illegible]	[illegible]	[illegible]
20,350	20,400	[illegible]	[illegible]	[illegible]	[illegible]
20,400	20,450	[illegible]	[illegible]	[illegible]	[illegible]
20,450	20,500	[illegible]	[illegible]	[illegible]	[illegible]
20,500	20,550	[illegible]	[illegible]	[illegible]	[illegible]
20,550	20,600	[illegible]	[illegible]	[illegible]	[illegible]
20,600	20,650	[illegible]	[illegible]	[illegible]	[illegible]
20,650	20,700	[illegible]	[illegible]	[illegible]	[illegible]
20,700	20,750	[illegible]	[illegible]	[illegible]	[illegible]
20,750	20,800	[illegible]	[illegible]	[illegible]	[illegible]
20,800	20,850	[illegible]	[illegible]	[illegible]	[illegible]
20,850	20,900	[illegible]	[illegible]	[illegible]	[illegible]
20,900	20,950	[illegible]	[illegible]	[illegible]	[illegible]
20,950	21,000	[illegible]	[illegible]	[illegible]	[illegible]

(Continued)

* This column must also be used by a qualifying widow(er).

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
21,000					
21,000	21,050	[illegible]	[illegible]	[illegible]	[illegible]
21,050	21,100	[illegible]	[illegible]	[illegible]	[illegible]
21,100	21,150	[illegible]	[illegible]	[illegible]	[illegible]
21,150	21,200	[illegible]	[illegible]	[illegible]	[illegible]
21,200	21,250	[illegible]	[illegible]	[illegible]	[illegible]
21,250	21,300	[illegible]	[illegible]	[illegible]	[illegible]
21,300	21,350	[illegible]	[illegible]	2,733	[illegible]
21,350	21,400	[illegible]	[illegible]	[illegible]	[illegible]
21,400	21,450	[illegible]	[illegible]	[illegible]	[illegible]
21,450	21,500	[illegible]	[illegible]	2,755	[illegible]
21,500	21,550	[illegible]	[illegible]	[illegible]	[illegible]
21,550	21,600	[illegible]	[illegible]	[illegible]	[illegible]
21,600	21,650	[illegible]	[illegible]	[illegible]	[illegible]
21,650	21,700	[illegible]	[illegible]	[illegible]	[illegible]
21,700	21,750	[illegible]	[illegible]	[illegible]	[illegible]
21,750	21,800	[illegible]	[illegible]	[illegible]	[illegible]
21,800	21,850	[illegible]	[illegible]	[illegible]	[illegible]
21,850	21,900	[illegible]	[illegible]	[illegible]	[illegible]
21,900	21,950	[illegible]	[illegible]	[illegible]	[illegible]
21,950	22,000	[illegible]	[illegible]	[illegible]	[illegible]
22,000					
22,000	22,050	[illegible]	[illegible]	[illegible]	[illegible]
22,050	22,100	[illegible]	[illegible]	[illegible]	[illegible]
22,100	22,150	[illegible]	[illegible]	[illegible]	[illegible]
22,150	22,200	[illegible]	[illegible]	[illegible]	[illegible]
22,200	22,250	[illegible]	[illegible]	[illegible]	[illegible]
22,250	22,300	2,875	2,406	2,875	2,674
22,300	22,350	2,883	2,416	2,883	2,681
22,350	22,400	2,890	2,424	2,890	2,689
22,400	22,450	2,898	2,431	2,898	2,696
22,450	22,500	2,905	2,439	2,905	2,704
22,500	22,550	[illegible]	2,446	2,913	2,711
22,550	22,600	[illegible]	2,454	2,920	2,719
22,600	22,650	[illegible]	2,461	2,928	2,726
22,650	22,700	[illegible]	2,469	2,935	2,734
22,700	22,750	[illegible]	2,476	2,943	2,741
22,750	22,800	[illegible]	[illegible]	[illegible]	[illegible]
22,800	22,850	[illegible]	[illegible]	[illegible]	[illegible]
22,850	22,900	[illegible]	[illegible]	[illegible]	[illegible]
22,900	22,950	[illegible]	[illegible]	[illegible]	[illegible]
22,950	23,000	[illegible]	[illegible]	[illegible]	[illegible]
23,000					
23,000	23,050	2,958	[illegible]	[illegible]	[illegible]
23,050	23,100	2,965	[illegible]	[illegible]	[illegible]
23,100	23,150	[illegible]	[illegible]	[illegible]	[illegible]
23,150	23,200	3,010	[illegible]	3,010	[illegible]
23,200	23,250	3,018	[illegible]	3,018	[illegible]
23,250	23,300	[illegible]	[illegible]	3,025	[illegible]
23,300	23,350	[illegible]	[illegible]	3,033	[illegible]
23,350	23,400	[illegible]	[illegible]	3,040	[illegible]
23,400	23,450	[illegible]	[illegible]	3,048	[illegible]
23,450	23,500	[illegible]	[illegible]	3,055	[illegible]
23,500	23,550	3,063	[illegible]	3,063	[illegible]
23,550	23,600	3,070	[illegible]	3,070	[illegible]
23,600	23,650	3,078	[illegible]	[illegible]	[illegible]
23,650	23,700	3,085	[illegible]	[illegible]	[illegible]
23,700	23,750	3,093	[illegible]	[illegible]	[illegible]
23,750	23,800	[illegible]	[illegible]	[illegible]	[illegible]
23,800	23,850	[illegible]	[illegible]	[illegible]	[illegible]
23,850	23,900	[illegible]	[illegible]	[illegible]	[illegible]
23,900	23,950	[illegible]	[illegible]	[illegible]	[illegible]
23,950	24,000	[illegible]	2,664	[illegible]	2,929
24,000					
24,000	24,050	3,138	2,671	3,138	[illegible]
24,050	24,100	3,145	2,679	3,145	[illegible]
24,100	24,150	3,153	2,686	[illegible]	[illegible]
24,150	24,200	3,160	2,694	[illegible]	[illegible]
24,200	24,250	3,168	2,701	3,168	[illegible]
24,250	24,300	3,175	2,709	3,175	[illegible]
24,300	24,350	3,183	2,716	[illegible]	[illegible]
24,350	24,400	3,190	2,724	[illegible]	[illegible]
24,400	24,450	3,198	2,731	[illegible]	[illegible]
24,450	24,500	3,205	2,739	[illegible]	[illegible]
24,500	24,550	3,213	2,746	[illegible]	[illegible]
24,550	24,600	3,220	2,754	[illegible]	[illegible]
24,600	24,650	3,228	2,761	[illegible]	[illegible]
24,650	24,700	3,235	2,769	[illegible]	[illegible]
24,700	24,750	3,243	2,776	[illegible]	[illegible]
24,750	24,800	3,250	2,784	[illegible]	[illegible]
24,800	24,850	3,258	2,791	[illegible]	[illegible]
24,850	24,900	3,265	2,799	[illegible]	[illegible]
24,900	24,950	3,273	2,806	[illegible]	[illegible]
24,950	25,000	3,280	2,814	[illegible]	[illegible]
25,000					
25,000	25,050	[illegible]	[illegible]	[illegible]	[illegible]
25,050	25,100	[illegible]	[illegible]	[illegible]	[illegible]
25,100	25,150	[illegible]	[illegible]	[illegible]	[illegible]
25,150	25,200	[illegible]	[illegible]	[illegible]	[illegible]
25,200	25,250	[illegible]	[illegible]	[illegible]	[illegible]
25,250	25,300	3,325	2,859	3,325	[illegible]
25,300	25,350	3,333	2,866	3,333	[illegible]
25,350	25,400	3,340	2,874	3,340	[illegible]
25,400	25,450	3,348	2,881	3,348	[illegible]
25,450	25,500	3,355	2,889	3,355	[illegible]
25,500	25,550	3,363	2,896	[illegible]	[illegible]
25,550	25,600	3,370	2,904	[illegible]	[illegible]
25,600	25,650	3,378	2,911	[illegible]	[illegible]
25,650	25,700	3,385	2,919	[illegible]	[illegible]
25,700	25,750	3,393	2,926	[illegible]	[illegible]
25,750	25,800	[illegible]	[illegible]	[illegible]	[illegible]
25,800	25,850	[illegible]	[illegible]	[illegible]	[illegible]
25,850	25,900	[illegible]	[illegible]	[illegible]	[illegible]
25,900	25,950	[illegible]	[illegible]	[illegible]	[illegible]
25,950	26,000	[illegible]	[illegible]	[illegible]	[illegible]
26,000					
26,000	26,050	[illegible]	[illegible]	[illegible]	[illegible]
26,050	26,100	[illegible]	[illegible]	[illegible]	[illegible]
26,100	26,150	[illegible]	[illegible]	[illegible]	[illegible]
26,150	26,200	[illegible]	[illegible]	[illegible]	[illegible]
26,200	26,250	[illegible]	[illegible]	[illegible]	[illegible]
26,250	26,300	[illegible]	[illegible]	[illegible]	[illegible]
26,300	26,350	[illegible]	[illegible]	[illegible]	[illegible]
26,350	26,400	[illegible]	[illegible]	[illegible]	[illegible]
26,400	26,450	[illegible]	[illegible]	[illegible]	[illegible]
26,450	26,500	[illegible]	[illegible]	[illegible]	[illegible]
26,500	26,550	3,513	[illegible]	[illegible]	[illegible]
26,550	26,600	3,520	[illegible]	[illegible]	[illegible]
26,600	26,650	3,528	[illegible]	[illegible]	[illegible]
26,650	26,700	3,535	[illegible]	[illegible]	[illegible]
26,700	26,750	3,543	[illegible]	[illegible]	[illegible]
26,750	26,800	[illegible]	[illegible]	[illegible]	[illegible]
26,800	26,850	[illegible]	[illegible]	[illegible]	[illegible]
26,850	26,900	[illegible]	[illegible]	[illegible]	[illegible]
26,900	26,950	[illegible]	[illegible]	[illegible]	[illegible]
26,950	27,000	[illegible]	[illegible]	[illegible]	[illegible]
27,000					
27,000	27,050	[illegible]	[illegible]	[illegible]	[illegible]
27,050	27,100	[illegible]	[illegible]	[illegible]	[illegible]
27,100	27,150	[illegible]	[illegible]	[illegible]	[illegible]
27,150	27,200	[illegible]	[illegible]	[illegible]	[illegible]
27,200	27,250	[illegible]	[illegible]	[illegible]	[illegible]
27,250	27,300	[illegible]	[illegible]	[illegible]	[illegible]
27,300	27,350	[illegible]	[illegible]	[illegible]	[illegible]
27,350	27,400	[illegible]	[illegible]	[illegible]	[illegible]
27,400	27,450	[illegible]	[illegible]	[illegible]	[illegible]
27,450	27,500	[illegible]	[illegible]	[illegible]	[illegible]
27,500	27,550	[illegible]	[illegible]	[illegible]	[illegible]
27,550	27,600	[illegible]	[illegible]	[illegible]	[illegible]
27,600	27,650	[illegible]	[illegible]	[illegible]	[illegible]
27,650	27,700	[illegible]	[illegible]	[illegible]	[illegible]
27,700	27,750	[illegible]	[illegible]	[illegible]	[illegible]
27,750	27,800	[illegible]	[illegible]	[illegible]	[illegible]
27,800	27,850	[illegible]	[illegible]	[illegible]	[illegible]
27,850	27,900	[illegible]	[illegible]	[illegible]	[illegible]
27,900	27,950	[illegible]	[illegible]	[illegible]	[illegible]
27,950	28,000	[illegible]	[illegible]	[illegible]	[illegible]
28,000					
28,000	28,050	[illegible]	[illegible]	[illegible]	3,536
28,050	28,100	[illegible]	[illegible]	[illegible]	3,544
28,100	28,150	[illegible]	[illegible]	[illegible]	3,551
28,150	28,200	[illegible]	[illegible]	[illegible]	3,559
28,200	28,250	[illegible]	[illegible]	[illegible]	3,566
28,250	28,300	[illegible]	3,309	[illegible]	3,574
28,300	28,350	[illegible]	3,316	[illegible]	3,581
28,350	28,400	[illegible]	3,324	[illegible]	3,589
28,400	28,450	[illegible]	3,331	[illegible]	3,596
28,450	28,500	[illegible]	3,339	[illegible]	3,604
28,500	28,550	[illegible]	3,346	3,813	3,611
28,550	28,600	[illegible]	3,354	3,820	3,619
28,600	28,650	[illegible]	3,361	3,828	3,626
28,650	28,700	[illegible]	3,369	3,835	3,634
28,700	28,750	[illegible]	3,375	3,843	3,641
28,750	28,800	[illegible]	3,384	3,850	3,649
28,800	28,850	[illegible]	3,391	3,858	3,656
28,850	28,900	[illegible]	3,399	3,865	3,664
28,900	28,950	[illegible]	3,406	3,873	3,671
28,950	29,000	[illegible]	3,414	3,880	3,679
29,000					
29,000	29,050	[illegible]	3,421	3,888	3,686
29,050	29,100	[illegible]	3,429	3,895	3,694
29,100	29,150	[illegible]	3,436	3,903	3,701
29,150	29,200	[illegible]	3,444	3,910	3,709
29,200	29,250	[illegible]	3,451	3,918	3,716
29,250	29,300	[illegible]	3,459	3,925	3,724
29,300	29,350	[illegible]	3,466	3,933	3,731
29,350	29,400	[illegible]	3,474	3,940	3,739
29,400	29,450	[illegible]	3,481	3,948	3,746
29,450	29,500	[illegible]	3,489	3,955	3,754
29,500	29,550	[illegible]	3,496	3,963	3,761
29,550	29,600	[illegible]	3,504	3,970	3,769
29,600	29,650	[illegible]	3,511	3,978	3,776
29,650	29,700	[illegible]	3,519	3,985	3,784
29,700	29,750	[illegible]	3,526	3,993	3,791
29,750	29,800	[illegible]	3,534	4,000	3,799
29,800	29,850	[illegible]	3,541	4,008	3,806
29,850	29,900	[illegible]	3,549	4,015	3,814
29,900	29,950	[illegible]	3,556	4,023	3,821
29,950	30,000	[illegible]	3,564	4,030	3,829

* This column must also be used by a qualifying widow(er).

(Continued)

DRAFT AS OF October 4, 2017

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
30,000					
30,000	30,050	[illegible]	[illegible]	[illegible]	[illegible]
30,050	30,100	4,045	[illegible]	[illegible]	[illegible]
30,100	30,150	[illegible]	[illegible]	[illegible]	[illegible]
30,150	30,200	[illegible]	[illegible]	[illegible]	[illegible]
30,200	30,250	[illegible]	[illegible]	[illegible]	[illegible]
30,250	30,300	[illegible]	[illegible]	[illegible]	[illegible]
30,300	30,350	[illegible]	[illegible]	4,083	[illegible]
30,350	30,400	4,090	[illegible]	[illegible]	[illegible]
30,400	30,450	4,098	[illegible]	[illegible]	[illegible]
30,450	30,500	4,105	[illegible]	[illegible]	[illegible]
30,500	30,550	[illegible]	[illegible]	[illegible]	[illegible]
30,550	30,600	[illegible]	[illegible]	[illegible]	[illegible]
30,600	30,650	[illegible]	[illegible]	[illegible]	[illegible]
30,650	30,700	[illegible]	[illegible]	[illegible]	[illegible]
30,700	30,750	[illegible]	[illegible]	[illegible]	[illegible]
30,750	30,800	[illegible]	[illegible]	[illegible]	[illegible]
30,800	30,850	[illegible]	[illegible]	[illegible]	[illegible]
30,850	30,900	[illegible]	[illegible]	[illegible]	[illegible]
30,900	30,950	[illegible]	[illegible]	[illegible]	[illegible]
30,950	31,000	[illegible]	[illegible]	[illegible]	[illegible]
31,000					
31,000	31,050	[illegible]	[illegible]	[illegible]	[illegible]
31,050	31,100	[illegible]	[illegible]	[illegible]	[illegible]
31,100	31,150	[illegible]	[illegible]	[illegible]	[illegible]
31,150	31,200	[illegible]	[illegible]	[illegible]	[illegible]
31,200	31,250	[illegible]	[illegible]	[illegible]	[illegible]
31,250	31,300	[illegible]	[illegible]	[illegible]	[illegible]
31,300	31,350	[illegible]	[illegible]	[illegible]	[illegible]
31,350	31,400	[illegible]	[illegible]	[illegible]	[illegible]
31,400	31,450	[illegible]	[illegible]	[illegible]	[illegible]
31,450	31,500	[illegible]	[illegible]	[illegible]	[illegible]
31,500	31,550	[illegible]	[illegible]	[illegible]	[illegible]
31,550	31,600	[illegible]	[illegible]	[illegible]	[illegible]
31,600	31,650	[illegible]	[illegible]	[illegible]	[illegible]
31,650	31,700	[illegible]	[illegible]	[illegible]	[illegible]
31,700	31,750	[illegible]	[illegible]	[illegible]	[illegible]
31,750	31,800	[illegible]	[illegible]	[illegible]	[illegible]
31,800	31,850	[illegible]	[illegible]	[illegible]	[illegible]
31,850	31,900	[illegible]	[illegible]	[illegible]	[illegible]
31,900	31,950	[illegible]	[illegible]	[illegible]	[illegible]
31,950	32,000	[illegible]	[illegible]	[illegible]	[illegible]
32,000					
32,000	32,050	[illegible]	[illegible]	[illegible]	[illegible]
32,050	32,100	[illegible]	[illegible]	[illegible]	[illegible]
32,100	32,150	[illegible]	[illegible]	[illegible]	[illegible]
32,150	32,200	[illegible]	[illegible]	[illegible]	[illegible]
32,200	32,250	[illegible]	[illegible]	[illegible]	[illegible]
32,250	32,300	[illegible]	[illegible]	[illegible]	[illegible]
32,300	32,350	[illegible]	[illegible]	[illegible]	[illegible]
32,350	32,400	[illegible]	[illegible]	[illegible]	[illegible]
32,400	32,450	[illegible]	[illegible]	[illegible]	[illegible]
32,450	32,500	[illegible]	[illegible]	[illegible]	[illegible]
32,500	32,550	[illegible]	[illegible]	[illegible]	[illegible]
32,550	32,600	[illegible]	[illegible]	[illegible]	[illegible]
32,600	32,650	[illegible]	[illegible]	[illegible]	[illegible]
32,650	32,700	[illegible]	[illegible]	[illegible]	[illegible]
32,700	32,750	[illegible]	[illegible]	[illegible]	[illegible]
32,750	32,800	[illegible]	[illegible]	[illegible]	[illegible]
32,800	32,850	[illegible]	[illegible]	[illegible]	[illegible]
32,850	32,900	[illegible]	[illegible]	[illegible]	[illegible]
32,900	32,950	[illegible]	[illegible]	[illegible]	[illegible]
32,950	33,000	[illegible]	[illegible]	[illegible]	[illegible]

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
33,000					
33,000	33,050	[illegible]	[illegible]	[illegible]	[illegible]
33,050	33,100	[illegible]	[illegible]	[illegible]	[illegible]
33,100	33,150	[illegible]	[illegible]	[illegible]	[illegible]
33,150	33,200	[illegible]	[illegible]	[illegible]	[illegible]
33,200	33,250	[illegible]	[illegible]	[illegible]	[illegible]
33,250	33,300	[illegible]	[illegible]	[illegible]	[illegible]
33,300	33,350	[illegible]	[illegible]	[illegible]	[illegible]
33,350	33,400	[illegible]	[illegible]	[illegible]	[illegible]
33,400	33,450	[illegible]	[illegible]	[illegible]	[illegible]
33,450	33,500	[illegible]	[illegible]	[illegible]	[illegible]
33,500	33,550	[illegible]	[illegible]	[illegible]	[illegible]
33,550	33,600	[illegible]	[illegible]	[illegible]	[illegible]
33,600	33,650	[illegible]	[illegible]	[illegible]	[illegible]
33,650	33,700	[illegible]	[illegible]	[illegible]	[illegible]
33,700	33,750	[illegible]	[illegible]	[illegible]	[illegible]
33,750	33,800	[illegible]	[illegible]	[illegible]	[illegible]
33,800	33,850	[illegible]	[illegible]	[illegible]	[illegible]
33,850	33,900	[illegible]	[illegible]	[illegible]	[illegible]
33,900	33,950	[illegible]	[illegible]	[illegible]	[illegible]
33,950	34,000	[illegible]	[illegible]	[illegible]	[illegible]
34,000					
34,000	34,050	[illegible]	[illegible]	[illegible]	[illegible]
34,050	34,100	[illegible]	[illegible]	[illegible]	[illegible]
34,100	34,150	[illegible]	[illegible]	[illegible]	[illegible]
34,150	34,200	[illegible]	[illegible]	[illegible]	[illegible]
34,200	34,250	[illegible]	[illegible]	[illegible]	[illegible]
34,250	34,300	[illegible]	[illegible]	[illegible]	[illegible]
34,300	34,350	[illegible]	[illegible]	[illegible]	[illegible]
34,350	34,400	[illegible]	[illegible]	[illegible]	[illegible]
34,400	34,450	[illegible]	[illegible]	[illegible]	[illegible]
34,450	34,500	[illegible]	[illegible]	[illegible]	[illegible]
34,500	34,550	[illegible]	[illegible]	[illegible]	[illegible]
34,550	34,600	[illegible]	[illegible]	[illegible]	[illegible]
34,600	34,650	[illegible]	[illegible]	[illegible]	[illegible]
34,650	34,700	[illegible]	[illegible]	[illegible]	[illegible]
34,700	34,750	[illegible]	[illegible]	[illegible]	[illegible]
34,750	34,800	[illegible]	[illegible]	[illegible]	[illegible]
34,800	34,850	[illegible]	[illegible]	[illegible]	[illegible]
34,850	34,900	[illegible]	[illegible]	[illegible]	[illegible]
34,900	34,950	[illegible]	[illegible]	[illegible]	[illegible]
34,950	35,000	[illegible]	4,314	[illegible]	[illegible]
35,000					
35,000	35,050	[illegible]	[illegible]	[illegible]	4,586
35,050	35,100	[illegible]	[illegible]	[illegible]	4,594
35,100	35,150	[illegible]	[illegible]	[illegible]	4,601
35,150	35,200	[illegible]	[illegible]	[illegible]	4,609
35,200	35,250	[illegible]	[illegible]	[illegible]	4,616
35,250	35,300	[illegible]	[illegible]	[illegible]	4,624
35,300	35,350	[illegible]	[illegible]	[illegible]	4,631
35,350	35,400	[illegible]	[illegible]	[illegible]	4,639
35,400	35,450	[illegible]	[illegible]	[illegible]	4,646
35,450	35,500	[illegible]	[illegible]	[illegible]	4,654
35,500	35,550	[illegible]	[illegible]	[illegible]	4,661
35,550	35,600	[illegible]	[illegible]	[illegible]	4,669
35,600	35,650	[illegible]	[illegible]	[illegible]	4,676
35,650	35,700	[illegible]	[illegible]	[illegible]	4,684
35,700	35,750	[illegible]	[illegible]	[illegible]	4,691
35,750	35,800	[illegible]	[illegible]	[illegible]	4,699
35,800	35,850	[illegible]	[illegible]	[illegible]	4,706
35,850	35,900	[illegible]	[illegible]	[illegible]	4,714
35,900	35,950	[illegible]	[illegible]	[illegible]	4,721
35,950	36,000	[illegible]	4,464	[illegible]	4,729

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
36,000					
36,000	36,050	[illegible]	4,471	[illegible]	[illegible]
36,050	36,100	[illegible]	4,479	[illegible]	[illegible]
36,100	36,150	[illegible]	4,486	[illegible]	[illegible]
36,150	36,200	[illegible]	4,494	[illegible]	[illegible]
36,200	36,250	[illegible]	4,501	[illegible]	[illegible]
36,250	36,300	[illegible]	4,509	[illegible]	[illegible]
36,300	36,350	[illegible]	4,516	[illegible]	[illegible]
36,350	36,400	[illegible]	4,524	[illegible]	[illegible]
36,400	36,450	[illegible]	4,531	[illegible]	[illegible]
36,450	36,500	[illegible]	4,539	[illegible]	[illegible]
36,500	36,550	[illegible]	4,546	[illegible]	[illegible]
36,550	36,600	[illegible]	4,554	[illegible]	[illegible]
36,600	36,650	[illegible]	4,561	[illegible]	[illegible]
36,650	36,700	[illegible]	4,569	[illegible]	[illegible]
36,700	36,750	[illegible]	4,576	[illegible]	[illegible]
36,750	36,800	[illegible]	4,584	[illegible]	[illegible]
36,800	36,850	[illegible]	4,591	[illegible]	[illegible]
36,850	36,900	[illegible]	4,599	[illegible]	[illegible]
36,900	36,950	[illegible]	4,606	[illegible]	[illegible]
36,950	37,000	[illegible]	[illegible]	[illegible]	[illegible]
37,000					
37,000	37,050	[illegible]	4,621	[illegible]	[illegible]
37,050	37,100	[illegible]	4,629	[illegible]	[illegible]
37,100	37,150	[illegible]	4,636	[illegible]	[illegible]
37,150	37,200	[illegible]	4,644	[illegible]	[illegible]
37,200	37,250	[illegible]	4,651	[illegible]	[illegible]
37,250	37,300	[illegible]	4,659	[illegible]	[illegible]
37,300	37,350	[illegible]	4,666	[illegible]	[illegible]
37,350	37,400	[illegible]	4,674	[illegible]	[illegible]
37,400	37,450	[illegible]	4,681	[illegible]	[illegible]
37,450	37,500	[illegible]	4,689	[illegible]	[illegible]
37,500	37,550	[illegible]	4,696	[illegible]	[illegible]
37,550	37,600	[illegible]	4,704	[illegible]	[illegible]
37,600	37,650	[illegible]	4,711	[illegible]	[illegible]
37,650	37,700	[illegible]	4,719	[illegible]	[illegible]
37,700	37,750	[illegible]	4,726	[illegible]	[illegible]
37,750	37,800	[illegible]	4,734	[illegible]	[illegible]
37,800	37,850	[illegible]	4,741	[illegible]	[illegible]
37,850	37,900	[illegible]	4,749	[illegible]	[illegible]
37,900	37,950	[illegible]	4,756	[illegible]	[illegible]
37,950	38,000	[illegible]	[illegible]	[illegible]	[illegible]
38,000					
38,000	38,050	[illegible]	4,771	[illegible]	[illegible]
38,050	38,100	[illegible]	4,779	[illegible]	[illegible]
38,100	38,150	[illegible]	4,786	[illegible]	[illegible]
38,150	38,200	[illegible]	4,794	[illegible]	[illegible]
38,200	38,250	[illegible]	4,801	[illegible]	[illegible]
38,250	38,300	[illegible]	4,809	[illegible]	[illegible]
38,300	38,350	[illegible]	4,816	[illegible]	[illegible]
38,350	38,400	[illegible]	4,824	[illegible]	[illegible]
38,400	38,450	[illegible]	4,831	[illegible]	[illegible]
38,450	38,500	[illegible]	4,839	[illegible]	[illegible]
38,500	38,550	[illegible]	4,846	[illegible]	[illegible]
38,550	38,600	[illegible]	4,854	[illegible]	[illegible]
38,600	38,650	[illegible]	4,861	[illegible]	[illegible]
38,650	38,700	[illegible]	4,869	[illegible]	[illegible]
38,700	38,750	[illegible]	4,876	[illegible]	[illegible]
38,750	38,800	[illegible]	4,884	[illegible]	[illegible]
38,800	38,850	[illegible]	4,891	[illegible]	[illegible]
38,850	38,900	[illegible]	4,899	[illegible]	[illegible]
38,900	38,950	[illegible]	4,906	[illegible]	[illegible]
38,950	39,000	[illegible]	4,914	[illegible]	[illegible]

* This column must also be used by a qualifying widow(er)

(Continued)

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
39,000					
39,000	39,050	[illegible]	[illegible]	5,495	[illegible]
39,050	39,100	[illegible]	[illegible]	[illegible]	[illegible]
39,100	39,150	[illegible]	[illegible]	[illegible]	[illegible]
39,150	39,200	[illegible]	[illegible]	[illegible]	[illegible]
39,200	39,250	5,545	[illegible]	5,545	[illegible]
39,250	39,300	[illegible]	[illegible]	[illegible]	[illegible]
39,300	39,350	[illegible]	[illegible]	5,570	[illegible]
39,350	39,400	[illegible]	[illegible]	[illegible]	[illegible]
39,400	39,450	[illegible]	[illegible]	[illegible]	[illegible]
39,450	39,500	[illegible]	[illegible]	[illegible]	[illegible]
39,500	39,550	[illegible]	[illegible]	[illegible]	[illegible]
39,550	39,600	[illegible]	[illegible]	[illegible]	[illegible]
39,600	39,650	[illegible]	[illegible]	[illegible]	[illegible]
39,650	39,700	[illegible]	[illegible]	[illegible]	[illegible]
39,700	39,750	[illegible]	[illegible]	[illegible]	[illegible]
39,750	39,800	[illegible]	[illegible]	[illegible]	[illegible]
39,800	39,850	[illegible]	[illegible]	[illegible]	[illegible]
39,850	39,900	[illegible]	[illegible]	[illegible]	[illegible]
39,900	39,950	[illegible]	[illegible]	[illegible]	[illegible]
39,950	40,000	[illegible]	[illegible]	[illegible]	[illegible]
40,000					
40,000	40,050	5,745	[illegible]	5,745	[illegible]
40,050	40,100	[illegible]	[illegible]	[illegible]	[illegible]
40,100	40,150	[illegible]	[illegible]	[illegible]	[illegible]
40,150	40,200	[illegible]	[illegible]	[illegible]	[illegible]
40,200	40,250	[illegible]	[illegible]	[illegible]	[illegible]
40,250	40,300	[illegible]	[illegible]	[illegible]	[illegible]
40,300	40,350	[illegible]	[illegible]	[illegible]	[illegible]
40,350	40,400	[illegible]	[illegible]	[illegible]	[illegible]
40,400	40,450	[illegible]	[illegible]	[illegible]	[illegible]
40,450	40,500	[illegible]	[illegible]	[illegible]	[illegible]
40,500	40,550	[illegible]	[illegible]	[illegible]	[illegible]
40,550	40,600	[illegible]	[illegible]	[illegible]	[illegible]
40,600	40,650	[illegible]	[illegible]	[illegible]	[illegible]
40,650	40,700	[illegible]	[illegible]	[illegible]	[illegible]
40,700	40,750	[illegible]	[illegible]	[illegible]	[illegible]
40,750	40,800	[illegible]	[illegible]	[illegible]	[illegible]
40,800	40,850	[illegible]	[illegible]	[illegible]	[illegible]
40,850	40,900	[illegible]	[illegible]	[illegible]	[illegible]
40,900	40,950	[illegible]	[illegible]	[illegible]	[illegible]
40,950	41,000	[illegible]	5,214	[illegible]	[illegible]
41,000					
41,000	41,050	[illegible]	5,221	[illegible]	5,486
41,050	41,100	[illegible]	5,229	[illegible]	5,494
41,100	41,150	[illegible]	5,236	[illegible]	5,501
41,150	41,200	[illegible]	5,244	[illegible]	5,509
41,200	41,250	[illegible]	5,251	[illegible]	5,516
41,250	41,300	[illegible]	5,259	[illegible]	5,524
41,300	41,350	[illegible]	5,266	[illegible]	5,531
41,350	41,400	[illegible]	5,274	[illegible]	5,539
41,400	41,450	[illegible]	5,281	[illegible]	5,546
41,450	41,500	[illegible]	5,289	[illegible]	5,554
41,500	41,550	[illegible]	5,296	[illegible]	5,561
41,550	41,600	[illegible]	5,304	[illegible]	5,569
41,600	41,650	[illegible]	5,311	[illegible]	5,576
41,650	41,700	[illegible]	5,319	[illegible]	5,584
41,700	41,750	[illegible]	5,326	[illegible]	5,591
41,750	41,800	[illegible]	5,334	[illegible]	5,599
41,800	41,850	[illegible]	5,341	[illegible]	5,606
41,850	41,900	[illegible]	5,349	[illegible]	5,614
41,900	41,950	[illegible]	5,356	[illegible]	5,621
41,950	42,000	[illegible]	5,364	[illegible]	5,629
42,000					
42,000	42,050	[illegible]	[illegible]	6,245	[illegible]
42,050	42,100	[illegible]	[illegible]	[illegible]	[illegible]
42,100	42,150	[illegible]	[illegible]	[illegible]	[illegible]
42,150	42,200	[illegible]	[illegible]	[illegible]	[illegible]
42,200	42,250	[illegible]	[illegible]	[illegible]	[illegible]
42,250	42,300	[illegible]	[illegible]	[illegible]	[illegible]
42,300	42,350	[illegible]	[illegible]	[illegible]	[illegible]
42,350	42,400	[illegible]	[illegible]	[illegible]	[illegible]
42,400	42,450	[illegible]	[illegible]	[illegible]	[illegible]
42,450	42,500	[illegible]	[illegible]	[illegible]	[illegible]
42,500	42,550	[illegible]	5,446	[illegible]	[illegible]
42,550	42,600	[illegible]	[illegible]	[illegible]	[illegible]
42,600	42,650	[illegible]	[illegible]	[illegible]	[illegible]
42,650	42,700	[illegible]	[illegible]	[illegible]	[illegible]
42,700	42,750	[illegible]	[illegible]	[illegible]	[illegible]
42,750	42,800	[illegible]	[illegible]	[illegible]	[illegible]
42,800	42,850	[illegible]	[illegible]	[illegible]	[illegible]
42,850	42,900	[illegible]	[illegible]	[illegible]	[illegible]
42,900	42,950	[illegible]	[illegible]	[illegible]	[illegible]
42,950	43,000	[illegible]	[illegible]	[illegible]	[illegible]
43,000					
43,000	43,050	[illegible]	5,521	[illegible]	5,786
43,050	43,100	[illegible]	5,529	[illegible]	5,794
43,100	43,150	[illegible]	5,536	[illegible]	5,801
43,150	43,200	[illegible]	5,544	[illegible]	5,809
43,200	43,250	[illegible]	5,551	[illegible]	5,816
43,250	43,300	[illegible]	5,559	[illegible]	5,824
43,300	43,350	[illegible]	5,566	[illegible]	5,831
43,350	43,400	[illegible]	5,574	[illegible]	5,839
43,400	43,450	[illegible]	5,581	[illegible]	5,846
43,450	43,500	[illegible]	5,589	[illegible]	5,854
43,500	43,550	[illegible]	5,596	[illegible]	5,861
43,550	43,600	[illegible]	5,604	[illegible]	5,869
43,600	43,650	[illegible]	5,611	[illegible]	5,876
43,650	43,700	[illegible]	5,619	[illegible]	5,884
43,700	43,750	[illegible]	5,626	[illegible]	5,891
43,750	43,800	[illegible]	5,634	[illegible]	5,899
43,800	43,850	[illegible]	5,641	[illegible]	5,906
43,850	43,900	[illegible]	5,649	[illegible]	5,914
43,900	43,950	[illegible]	5,656	[illegible]	5,921
43,950	44,000	[illegible]	[illegible]	[illegible]	[illegible]
44,000					
44,000	44,050	[illegible]	[illegible]	[illegible]	5,936
44,050	44,100	[illegible]	[illegible]	[illegible]	5,944
44,100	44,150	[illegible]	[illegible]	[illegible]	5,951
44,150	44,200	[illegible]	[illegible]	[illegible]	5,959
44,200	44,250	[illegible]	[illegible]	[illegible]	5,966
44,250	44,300	[illegible]	[illegible]	[illegible]	5,974
44,300	44,350	[illegible]	[illegible]	[illegible]	5,981
44,350	44,400	[illegible]	[illegible]	[illegible]	5,989
44,400	44,450	[illegible]	[illegible]	[illegible]	5,996
44,450	44,500	[illegible]	[illegible]	[illegible]	6,004
44,500	44,550	[illegible]	[illegible]	[illegible]	6,011
44,550	44,600	[illegible]	[illegible]	[illegible]	6,019
44,600	44,650	[illegible]	[illegible]	[illegible]	6,026
44,650	44,700	[illegible]	[illegible]	[illegible]	6,034
44,700	44,750	[illegible]	[illegible]	[illegible]	6,041
44,750	44,800	[illegible]	[illegible]	[illegible]	6,049
44,800	44,850	[illegible]	[illegible]	[illegible]	6,056
44,850	44,900	[illegible]	[illegible]	[illegible]	6,064
44,900	44,950	[illegible]	[illegible]	[illegible]	6,071
44,950	45,000	[illegible]	5,814	[illegible]	[illegible]
45,000					
45,000	45,050	[illegible]	5,821	[illegible]	[illegible]
45,050	45,100	[illegible]	5,829	[illegible]	[illegible]
45,100	45,150	[illegible]	5,836	[illegible]	[illegible]
45,150	45,200	[illegible]	5,844	[illegible]	[illegible]
45,200	45,250	[illegible]	5,851	[illegible]	[illegible]
45,250	45,300	[illegible]	5,859	[illegible]	[illegible]
45,300	45,350	[illegible]	5,866	[illegible]	[illegible]
45,350	45,400	[illegible]	5,874	[illegible]	[illegible]
45,400	45,450	[illegible]	5,881	[illegible]	[illegible]
45,450	45,500	[illegible]	5,889	[illegible]	[illegible]
45,500	45,550	[illegible]	5,896	[illegible]	[illegible]
45,550	45,600	[illegible]	5,904	[illegible]	[illegible]
45,600	45,650	[illegible]	5,911	[illegible]	[illegible]
45,650	45,700	[illegible]	5,919	[illegible]	[illegible]
45,700	45,750	[illegible]	5,926	[illegible]	[illegible]
45,750	45,800	[illegible]	5,934	[illegible]	[illegible]
45,800	45,850	[illegible]	5,941	[illegible]	[illegible]
45,850	45,900	[illegible]	5,949	[illegible]	[illegible]
45,900	45,950	[illegible]	5,956	[illegible]	[illegible]
45,950	46,000	[illegible]	5,964	[illegible]	[illegible]
46,000					
46,000	46,050	[illegible]	[illegible]	[illegible]	[illegible]
46,050	46,100	[illegible]	[illegible]	[illegible]	[illegible]
46,100	46,150	[illegible]	[illegible]	[illegible]	[illegible]
46,150	46,200	[illegible]	[illegible]	[illegible]	[illegible]
46,200	46,250	[illegible]	[illegible]	[illegible]	[illegible]
46,250	46,300	[illegible]	[illegible]	[illegible]	[illegible]
46,300	46,350	[illegible]	[illegible]	[illegible]	[illegible]
46,350	46,400	[illegible]	[illegible]	[illegible]	[illegible]
46,400	46,450	[illegible]	[illegible]	[illegible]	[illegible]
46,450	46,500	[illegible]	[illegible]	[illegible]	[illegible]
46,500	46,550	[illegible]	[illegible]	[illegible]	[illegible]
46,550	46,600	[illegible]	[illegible]	[illegible]	[illegible]
46,600	46,650	[illegible]	[illegible]	[illegible]	[illegible]
46,650	46,700	[illegible]	[illegible]	[illegible]	[illegible]
46,700	46,750	[illegible]	[illegible]	[illegible]	[illegible]
46,750	46,800	[illegible]	[illegible]	[illegible]	[illegible]
46,800	46,850	[illegible]	[illegible]	[illegible]	[illegible]
46,850	46,900	[illegible]	[illegible]	[illegible]	[illegible]
46,900	46,950	[illegible]	[illegible]	[illegible]	[illegible]
46,950	47,000	[illegible]	6,114	[illegible]	[illegible]
47,000					
47,000	47,050	[illegible]	[illegible]	[illegible]	6,386
47,050	47,100	[illegible]	[illegible]	[illegible]	6,394
47,100	47,150	[illegible]	[illegible]	[illegible]	6,401
47,150	47,200	[illegible]	6,144	[illegible]	6,409
47,200	47,250	[illegible]	[illegible]	[illegible]	6,416
47,250	47,300	[illegible]	[illegible]	[illegible]	6,424
47,300	47,350	[illegible]	[illegible]	[illegible]	6,431
47,350	47,400	[illegible]	[illegible]	[illegible]	6,439
47,400	47,450	[illegible]	[illegible]	[illegible]	6,446
47,450	47,500	[illegible]	[illegible]	[illegible]	6,454
47,500	47,550	[illegible]	[illegible]	[illegible]	6,461
47,550	47,600	[illegible]	[illegible]	[illegible]	6,469
47,600	47,650	[illegible]	[illegible]	[illegible]	6,476
47,650	47,700	[illegible]	[illegible]	[illegible]	6,484
47,700	47,750	[illegible]	[illegible]	[illegible]	6,491
47,750	47,800	[illegible]	[illegible]	[illegible]	6,499
47,800	47,850	[illegible]	[illegible]	[illegible]	6,506
47,850	47,900	[illegible]	[illegible]	[illegible]	6,514
47,900	47,950	[illegible]	[illegible]	[illegible]	6,521
47,950	48,000	[illegible]	6,264	[illegible]	6,529

(Continued)

* This column must also be used by a qualifying widow(er).

If line 27 (taxable income) is— At least	But less than	And you are— Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
48,000					
48,000	48,050	[illegible]	6,271	[illegible]	[illegible]
48,050	48,100	[illegible]	6,279	[illegible]	[illegible]
48,100	48,150	[illegible]	6,286	[illegible]	[illegible]
48,150	48,200	[illegible]	6,294	[illegible]	[illegible]
48,200	48,250	[illegible]	6,301	[illegible]	[illegible]
48,250	48,300	[illegible]	6,309	[illegible]	[illegible]
48,300	48,350	[illegible]	6,316	[illegible]	[illegible]
48,350	48,400	[illegible]	6,324	[illegible]	[illegible]
48,400	48,450	[illegible]	6,331	[illegible]	[illegible]
48,450	48,500	[illegible]	6,339	[illegible]	[illegible]
48,500	48,550	[illegible]	6,346	[illegible]	[illegible]
48,550	48,600	[illegible]	6,354	[illegible]	[illegible]
48,600	48,650	[illegible]	6,361	[illegible]	[illegible]
48,650	48,700	[illegible]	6,369	[illegible]	[illegible]
48,700	48,750	[illegible]	6,376	[illegible]	[illegible]
48,750	48,800	[illegible]	6,384	[illegible]	[illegible]
48,800	48,850	[illegible]	6,391	[illegible]	[illegible]
48,850	48,900	[illegible]	6,399	[illegible]	[illegible]
48,900	48,950	[illegible]	6,406	[illegible]	[illegible]
48,950	49,000	[illegible]	6,414	[illegible]	[illegible]
49,000					
49,000	49,050	[illegible]	6,421	7,995	6,686
49,050	49,100	[illegible]	6,429	8,008	6,694
49,100	49,150	[illegible]	6,436	8,020	6,701
49,150	49,200	[illegible]	6,444	8,033	6,709
49,200	49,250	[illegible]	6,451	8,045	6,716
49,250	49,300	[illegible]	6,459	8,058	6,724
49,300	49,350	[illegible]	6,466	8,070	6,731
49,350	49,400	[illegible]	6,474	8,083	6,739
49,400	49,450	[illegible]	6,481	8,095	6,746
49,450	49,500	[illegible]	6,489	8,108	6,754
49,500	49,550	[illegible]	6,496	8,120	6,761
49,550	49,600	[illegible]	6,504	8,133	6,769
49,600	49,650	[illegible]	6,511	8,145	6,776
49,650	49,700	[illegible]	6,519	8,158	6,784
49,700	49,750	[illegible]	6,526	8,170	6,791
49,750	49,800	[illegible]	6,534	8,183	6,799
49,800	49,850	[illegible]	6,541	8,195	6,806
49,850	49,900	[illegible]	6,549	8,208	6,814
49,900	49,950	[illegible]	6,556	8,220	6,821
49,950	50,000	[illegible]	6,564	[illegible]	[illegible]
50,000					
50,000	50,050	[illegible]	[illegible]	[illegible]	[illegible]
50,050	50,100	[illegible]	[illegible]	[illegible]	[illegible]
50,100	50,150	[illegible]	[illegible]	[illegible]	[illegible]
50,150	50,200	[illegible]	[illegible]	[illegible]	[illegible]
50,200	50,250	[illegible]	[illegible]	[illegible]	[illegible]
50,250	50,300	[illegible]	[illegible]	[illegible]	[illegible]
50,300	50,350	[illegible]	[illegible]	[illegible]	[illegible]
50,350	50,400	[illegible]	[illegible]	[illegible]	[illegible]
50,400	50,450	[illegible]	[illegible]	[illegible]	[illegible]
50,450	50,500	[illegible]	[illegible]	[illegible]	[illegible]
50,500	50,550	[illegible]	[illegible]	[illegible]	[illegible]
50,550	50,600	[illegible]	[illegible]	[illegible]	[illegible]
50,600	50,650	[illegible]	[illegible]	[illegible]	[illegible]
50,650	50,700	[illegible]	[illegible]	[illegible]	[illegible]
50,700	50,750	[illegible]	[illegible]	[illegible]	[illegible]
50,750	50,800	[illegible]	[illegible]	[illegible]	[illegible]
50,800	50,850	[illegible]	[illegible]	[illegible]	[illegible]
50,850	50,900	[illegible]	[illegible]	[illegible]	[illegible]
50,900	50,950	[illegible]	[illegible]	[illegible]	[illegible]
50,950	51,000	[illegible]	[illegible]	[illegible]	[illegible]
51,000					
51,000	51,050	[illegible]	[illegible]	[illegible]	[illegible]
51,050	51,100	[illegible]	[illegible]	[illegible]	[illegible]
51,100	51,150	[illegible]	[illegible]	[illegible]	[illegible]
51,150	51,200	[illegible]	[illegible]	[illegible]	[illegible]
51,200	51,250	[illegible]	[illegible]	8,545	[illegible]
51,250	51,300	[illegible]	[illegible]	8,558	[illegible]
51,300	51,350	[illegible]	[illegible]	8,570	[illegible]
51,350	51,400	[illegible]	[illegible]	8,583	[illegible]
51,400	51,450	[illegible]	[illegible]	8,595	[illegible]
51,450	51,500	[illegible]	[illegible]	8,608	[illegible]
51,500	51,550	[illegible]	[illegible]	8,620	[illegible]
51,550	51,600	[illegible]	[illegible]	8,633	[illegible]
51,600	51,650	[illegible]	[illegible]	8,645	[illegible]
51,650	51,700	[illegible]	[illegible]	8,658	[illegible]
51,700	51,750	[illegible]	[illegible]	8,670	[illegible]
51,750	51,800	[illegible]	[illegible]	8,683	[illegible]
51,800	51,850	[illegible]	[illegible]	8,695	[illegible]
51,850	51,900	[illegible]	[illegible]	8,708	[illegible]
51,900	51,950	[illegible]	[illegible]	8,720	[illegible]
51,950	52,000	[illegible]	6,864	8,733	[illegible]
52,000					
52,000	52,050	[illegible]	[illegible]	[illegible]	[illegible]
52,050	52,100	[illegible]	[illegible]	[illegible]	[illegible]
52,100	52,150	[illegible]	[illegible]	[illegible]	[illegible]
52,150	52,200	[illegible]	[illegible]	[illegible]	[illegible]
52,200	52,250	[illegible]	[illegible]	[illegible]	[illegible]
52,250	52,300	[illegible]	[illegible]	[illegible]	[illegible]
52,300	52,350	[illegible]	[illegible]	[illegible]	[illegible]
52,350	52,400	[illegible]	[illegible]	[illegible]	[illegible]
52,400	52,450	[illegible]	[illegible]	[illegible]	[illegible]
52,450	52,500	[illegible]	[illegible]	[illegible]	[illegible]
52,500	52,550	[illegible]	[illegible]	[illegible]	[illegible]
52,550	52,600	[illegible]	[illegible]	[illegible]	[illegible]
52,600	52,650	[illegible]	[illegible]	[illegible]	[illegible]
52,650	52,700	[illegible]	[illegible]	[illegible]	[illegible]
52,700	52,750	[illegible]	[illegible]	[illegible]	[illegible]
52,750	52,800	[illegible]	[illegible]	[illegible]	[illegible]
52,800	52,850	[illegible]	[illegible]	[illegible]	[illegible]
52,850	52,900	[illegible]	[illegible]	[illegible]	[illegible]
52,900	52,950	[illegible]	[illegible]	[illegible]	[illegible]
52,950	53,000	[illegible]	[illegible]	[illegible]	[illegible]
53,000					
53,000	53,050	[illegible]	[illegible]	[illegible]	[illegible]
53,050	53,100	[illegible]	[illegible]	[illegible]	[illegible]
53,100	53,150	[illegible]	[illegible]	[illegible]	[illegible]
53,150	53,200	[illegible]	[illegible]	[illegible]	[illegible]
53,200	53,250	[illegible]	[illegible]	[illegible]	[illegible]
53,250	53,300	[illegible]	[illegible]	[illegible]	[illegible]
53,300	53,350	[illegible]	[illegible]	[illegible]	[illegible]
53,350	53,400	[illegible]	[illegible]	[illegible]	[illegible]
53,400	53,450	[illegible]	[illegible]	[illegible]	[illegible]
53,450	53,500	[illegible]	[illegible]	[illegible]	[illegible]
53,500	53,550	[illegible]	[illegible]	[illegible]	[illegible]
53,550	53,600	[illegible]	[illegible]	[illegible]	[illegible]
53,600	53,650	[illegible]	[illegible]	[illegible]	[illegible]
53,650	53,700	[illegible]	[illegible]	[illegible]	[illegible]
53,700	53,750	[illegible]	[illegible]	[illegible]	[illegible]
53,750	53,800	[illegible]	[illegible]	[illegible]	[illegible]
53,800	53,850	[illegible]	[illegible]	[illegible]	[illegible]
53,850	53,900	[illegible]	[illegible]	[illegible]	[illegible]
53,900	53,950	[illegible]	[illegible]	[illegible]	[illegible]
53,950	54,000	[illegible]	[illegible]	[illegible]	[illegible]
54,000					
54,000	54,050	[illegible]	[illegible]	[illegible]	[illegible]
54,050	54,100	[illegible]	[illegible]	[illegible]	[illegible]
54,100	54,150	[illegible]	[illegible]	[illegible]	[illegible]
54,150	54,200	[illegible]	[illegible]	[illegible]	[illegible]
54,200	54,250	[illegible]	[illegible]	[illegible]	[illegible]
54,250	54,300	[illegible]	[illegible]	[illegible]	[illegible]
54,300	54,350	[illegible]	[illegible]	[illegible]	[illegible]
54,350	54,400	[illegible]	[illegible]	[illegible]	[illegible]
54,400	54,450	[illegible]	[illegible]	[illegible]	[illegible]
54,450	54,500	[illegible]	[illegible]	[illegible]	[illegible]
54,500	54,550	[illegible]	[illegible]	[illegible]	[illegible]
54,550	54,600	[illegible]	[illegible]	[illegible]	[illegible]
54,600	54,650	[illegible]	[illegible]	[illegible]	[illegible]
54,650	54,700	[illegible]	[illegible]	[illegible]	[illegible]
54,700	54,750	[illegible]	[illegible]	[illegible]	[illegible]
54,750	54,800	[illegible]	[illegible]	[illegible]	[illegible]
54,800	54,850	[illegible]	[illegible]	[illegible]	[illegible]
54,850	54,900	[illegible]	[illegible]	[illegible]	[illegible]
54,900	54,950	[illegible]	[illegible]	[illegible]	[illegible]
54,950	55,000	[illegible]	[illegible]	[illegible]	[illegible]
55,000					
55,000	55,050	[illegible]	[illegible]	[illegible]	[illegible]
55,050	55,100	[illegible]	[illegible]	[illegible]	[illegible]
55,100	55,150	[illegible]	[illegible]	[illegible]	[illegible]
55,150	55,200	[illegible]	[illegible]	[illegible]	[illegible]
55,200	55,250	[illegible]	[illegible]	[illegible]	[illegible]
55,250	55,300	[illegible]	[illegible]	[illegible]	[illegible]
55,300	55,350	[illegible]	[illegible]	[illegible]	[illegible]
55,350	55,400	[illegible]	[illegible]	[illegible]	[illegible]
55,400	55,450	[illegible]	[illegible]	[illegible]	[illegible]
55,450	55,500	[illegible]	[illegible]	[illegible]	[illegible]
55,500	55,550	[illegible]	[illegible]	[illegible]	[illegible]
55,550	55,600	[illegible]	[illegible]	[illegible]	[illegible]
55,600	55,650	[illegible]	[illegible]	[illegible]	[illegible]
55,650	55,700	[illegible]	[illegible]	[illegible]	[illegible]
55,700	55,750	[illegible]	[illegible]	[illegible]	[illegible]
55,750	55,800	[illegible]	[illegible]	[illegible]	[illegible]
55,800	55,850	[illegible]	[illegible]	[illegible]	[illegible]
55,850	55,900	[illegible]	[illegible]	[illegible]	[illegible]
55,900	55,950	[illegible]	[illegible]	[illegible]	[illegible]
55,950	56,000	[illegible]	[illegible]	[illegible]	[illegible]
56,000					
56,000	56,050	[illegible]	[illegible]	[illegible]	[illegible]
56,050	56,100	[illegible]	[illegible]	[illegible]	[illegible]
56,100	56,150	[illegible]	[illegible]	[illegible]	[illegible]
56,150	56,200	[illegible]	[illegible]	[illegible]	[illegible]
56,200	56,250	[illegible]	[illegible]	[illegible]	[illegible]
56,250	56,300	[illegible]	[illegible]	[illegible]	[illegible]
56,300	56,350	[illegible]	[illegible]	[illegible]	[illegible]
56,350	56,400	[illegible]	[illegible]	[illegible]	[illegible]
56,400	56,450	[illegible]	[illegible]	[illegible]	[illegible]
56,450	56,500	[illegible]	[illegible]	[illegible]	[illegible]
56,500	56,550	[illegible]	[illegible]	[illegible]	[illegible]
56,550	56,600	[illegible]	[illegible]	[illegible]	[illegible]
56,600	56,650	[illegible]	[illegible]	[illegible]	[illegible]
56,650	56,700	[illegible]	[illegible]	[illegible]	[illegible]
56,700	56,750	[illegible]	[illegible]	[illegible]	[illegible]
56,750	56,800	[illegible]	[illegible]	[illegible]	[illegible]
56,800	56,850	[illegible]	[illegible]	[illegible]	[illegible]
56,850	56,900	[illegible]	[illegible]	[illegible]	[illegible]
56,900	56,950	[illegible]	[illegible]	[illegible]	[illegible]
56,950	57,000	[illegible]	[illegible]	[illegible]	[illegible]

(Continued)

* This column must also be used by a qualifying widow(er)

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing sepa-rately	Head of a house-hold
		Your tax is—			
57,000					
57,000	57,050	[illegible]	[illegible]	[illegible]	[illegible]
57,050	57,100	[illegible]	[illegible]	[illegible]	[illegible]
57,100	57,150	[illegible]	[illegible]	[illegible]	[illegible]
57,150	57,200	[illegible]	[illegible]	[illegible]	[illegible]
57,200	57,250	[illegible]	[illegible]	[illegible]	[illegible]
57,250	57,300	[illegible]	[illegible]	[illegible]	[illegible]
57,300	57,350	[illegible]	[illegible]	[illegible]	[illegible]
57,350	57,400	[illegible]	[illegible]	[illegible]	[illegible]
57,400	57,450	[illegible]	[illegible]	[illegible]	[illegible]
57,450	57,500	[illegible]	[illegible]	[illegible]	[illegible]
57,500	57,550	[illegible]	[illegible]	[illegible]	[illegible]
57,550	57,600	[illegible]	[illegible]	[illegible]	[illegible]
57,600	57,650	[illegible]	[illegible]	[illegible]	[illegible]
57,650	57,700	[illegible]	[illegible]	[illegible]	[illegible]
57,700	57,750	[illegible]	[illegible]	[illegible]	[illegible]
57,750	57,800	[illegible]	[illegible]	[illegible]	[illegible]
57,800	57,850	[illegible]	[illegible]	[illegible]	[illegible]
57,850	57,900	[illegible]	[illegible]	[illegible]	[illegible]
57,900	57,950	[illegible]	[illegible]	[illegible]	[illegible]
57,950	58,000	[illegible]	[illegible]	[illegible]	[illegible]
58,000					
58,000	58,050	10,245	[illegible]	[illegible]	[illegible]
58,050	58,100	10,258	[illegible]	[illegible]	[illegible]
58,100	58,150	10,270	[illegible]	[illegible]	[illegible]
58,150	58,200	10,283	[illegible]	[illegible]	[illegible]
58,200	58,250	10,295	[illegible]	[illegible]	[illegible]
58,250	58,300	10,308	[illegible]	[illegible]	[illegible]
58,300	58,350	10,320	[illegible]	[illegible]	[illegible]
58,350	58,400	10,333	[illegible]	[illegible]	[illegible]
58,400	58,450	10,345	[illegible]	[illegible]	[illegible]
58,450	58,500	10,358	[illegible]	[illegible]	[illegible]
58,500	58,550	10,370	[illegible]	[illegible]	[illegible]
58,550	58,600	10,383	[illegible]	[illegible]	[illegible]
58,600	58,650	10,395	[illegible]	[illegible]	[illegible]
58,650	58,700	10,408	[illegible]	[illegible]	[illegible]
58,700	58,750	10,420	[illegible]	[illegible]	[illegible]
58,750	58,800	10,433	[illegible]	[illegible]	[illegible]
58,800	58,850	10,445	[illegible]	[illegible]	[illegible]
58,850	58,900	10,458	[illegible]	[illegible]	[illegible]
58,900	58,950	10,470	[illegible]	[illegible]	[illegible]
58,950	59,000	10,483	[illegible]	[illegible]	[illegible]
59,000					
59,000	59,050	10,495	[illegible]	[illegible]	[illegible]
59,050	59,100	10,508	[illegible]	[illegible]	[illegible]
59,100	59,150	10,520	[illegible]	[illegible]	[illegible]
59,150	59,200	10,533	[illegible]	[illegible]	[illegible]
59,200	59,250	10,545	[illegible]	[illegible]	[illegible]
59,250	59,300	10,558	[illegible]	[illegible]	[illegible]
59,300	59,350	10,570	[illegible]	[illegible]	[illegible]
59,350	59,400	10,583	[illegible]	[illegible]	[illegible]
59,400	59,450	10,595	[illegible]	[illegible]	[illegible]
59,450	59,500	10,608	[illegible]	[illegible]	[illegible]
59,500	59,550	10,620	[illegible]	[illegible]	[illegible]
59,550	59,600	10,633	[illegible]	[illegible]	[illegible]
59,600	59,650	10,645	[illegible]	[illegible]	[illegible]
59,650	59,700	10,658	[illegible]	[illegible]	[illegible]
59,700	59,750	10,670	[illegible]	[illegible]	[illegible]
59,750	59,800	10,683	[illegible]	[illegible]	[illegible]
59,800	59,850	10,695	[illegible]	[illegible]	[illegible]
59,850	59,900	10,708	[illegible]	[illegible]	[illegible]
59,900	59,950	10,720	[illegible]	[illegible]	[illegible]
59,950	60,000	[illegible]	[illegible]	[illegible]	[illegible]
60,000					
60,000	60,050	[illegible]	[illegible]	[illegible]	9,259
60,050	60,100	[illegible]	[illegible]	[illegible]	9,271
60,100	60,150	[illegible]	[illegible]	[illegible]	[illegible]
60,150	60,200	[illegible]	[illegible]	[illegible]	[illegible]
60,200	60,250	[illegible]	[illegible]	[illegible]	[illegible]
60,250	60,300	[illegible]	[illegible]	[illegible]	[illegible]
60,300	60,350	[illegible]	[illegible]	[illegible]	[illegible]
60,350	60,400	[illegible]	[illegible]	[illegible]	[illegible]
60,400	60,450	[illegible]	[illegible]	[illegible]	[illegible]
60,450	60,500	[illegible]	[illegible]	[illegible]	[illegible]
60,500	60,550	[illegible]	[illegible]	[illegible]	[illegible]
60,550	60,600	[illegible]	[illegible]	[illegible]	[illegible]
60,600	60,650	[illegible]	[illegible]	[illegible]	[illegible]
60,650	60,700	[illegible]	[illegible]	[illegible]	[illegible]
60,700	60,750	[illegible]	[illegible]	[illegible]	[illegible]
60,750	60,800	[illegible]	[illegible]	[illegible]	[illegible]
60,800	60,850	[illegible]	[illegible]	[illegible]	[illegible]
60,850	60,900	[illegible]	[illegible]	[illegible]	[illegible]
60,900	60,950	[illegible]	[illegible]	[illegible]	[illegible]
60,950	61,000	[illegible]	[illegible]	[illegible]	[illegible]
61,000					
61,000	61,050	[illegible]	8,221	[illegible]	[illegible]
61,050	61,100	[illegible]	8,229	[illegible]	[illegible]
61,100	61,150	[illegible]	8,236	[illegible]	[illegible]
61,150	61,200	[illegible]	8,244	[illegible]	[illegible]
61,200	61,250	[illegible]	8,251	[illegible]	[illegible]
61,250	61,300	[illegible]	8,259	[illegible]	[illegible]
61,300	61,350	[illegible]	8,266	[illegible]	[illegible]
61,350	61,400	[illegible]	8,274	[illegible]	[illegible]
61,400	61,450	[illegible]	8,281	[illegible]	[illegible]
61,450	61,500	[illegible]	8,289	[illegible]	[illegible]
61,500	61,550	[illegible]	8,296	[illegible]	[illegible]
61,550	61,600	[illegible]	8,304	[illegible]	[illegible]
61,600	61,650	[illegible]	8,311	[illegible]	[illegible]
61,650	61,700	[illegible]	8,319	[illegible]	[illegible]
61,700	61,750	[illegible]	8,326	[illegible]	[illegible]
61,750	61,800	[illegible]	8,334	[illegible]	[illegible]
61,800	61,850	[illegible]	8,341	[illegible]	[illegible]
61,850	61,900	[illegible]	8,349	[illegible]	[illegible]
61,900	61,950	[illegible]	8,356	[illegible]	[illegible]
61,950	62,000	[illegible]	[illegible]	[illegible]	[illegible]
62,000					
62,000	62,050	[illegible]	8,371	[illegible]	[illegible]
62,050	62,100	[illegible]	8,379	[illegible]	[illegible]
62,100	62,150	[illegible]	8,386	[illegible]	[illegible]
62,150	62,200	[illegible]	8,394	[illegible]	[illegible]
62,200	62,250	[illegible]	8,401	[illegible]	[illegible]
62,250	62,300	[illegible]	8,409	[illegible]	[illegible]
62,300	62,350	[illegible]	8,416	[illegible]	[illegible]
62,350	62,400	[illegible]	8,424	[illegible]	[illegible]
62,400	62,450	[illegible]	8,431	[illegible]	[illegible]
62,450	62,500	[illegible]	8,439	[illegible]	[illegible]
62,500	62,550	[illegible]	8,446	[illegible]	[illegible]
62,550	62,600	[illegible]	8,454	[illegible]	[illegible]
62,600	62,650	[illegible]	8,461	[illegible]	[illegible]
62,650	62,700	[illegible]	8,469	[illegible]	[illegible]
62,700	62,750	[illegible]	8,476	[illegible]	[illegible]
62,750	62,800	[illegible]	8,484	[illegible]	[illegible]
62,800	62,850	[illegible]	8,491	[illegible]	[illegible]
62,850	62,900	[illegible]	8,499	[illegible]	[illegible]
62,900	62,950	[illegible]	8,506	[illegible]	[illegible]
62,950	63,000	[illegible]	8,514	[illegible]	[illegible]
63,000					
63,000	63,050	11,495	8,521	[illegible]	[illegible]
63,050	63,100	11,508	8,529	[illegible]	[illegible]
63,100	63,150	[illegible]	8,536	[illegible]	[illegible]
63,150	63,200	[illegible]	8,544	[illegible]	[illegible]
63,200	63,250	[illegible]	8,551	[illegible]	[illegible]
63,250	63,300	[illegible]	8,559	[illegible]	[illegible]
63,300	63,350	[illegible]	8,566	[illegible]	[illegible]
63,350	63,400	[illegible]	8,574	[illegible]	[illegible]
63,400	63,450	[illegible]	8,581	[illegible]	[illegible]
63,450	63,500	[illegible]	8,589	[illegible]	[illegible]
63,500	63,550	[illegible]	8,596	[illegible]	[illegible]
63,550	63,600	[illegible]	8,604	[illegible]	[illegible]
63,600	63,650	[illegible]	8,611	[illegible]	[illegible]
63,650	63,700	[illegible]	8,619	[illegible]	[illegible]
63,700	63,750	[illegible]	8,626	[illegible]	[illegible]
63,750	63,800	[illegible]	8,634	[illegible]	[illegible]
63,800	63,850	[illegible]	8,641	[illegible]	[illegible]
63,850	63,900	[illegible]	8,649	[illegible]	[illegible]
63,900	63,950	[illegible]	8,656	[illegible]	[illegible]
63,950	64,000	[illegible]	8,664	[illegible]	[illegible]
64,000					
64,000	64,050	[illegible]	8,671	[illegible]	[illegible]
64,050	64,100	[illegible]	8,679	[illegible]	[illegible]
64,100	64,150	[illegible]	8,686	[illegible]	[illegible]
64,150	64,200	[illegible]	8,694	[illegible]	[illegible]
64,200	64,250	[illegible]	8,701	[illegible]	[illegible]
64,250	64,300	[illegible]	8,709	[illegible]	[illegible]
64,300	64,350	[illegible]	8,716	[illegible]	[illegible]
64,350	64,400	[illegible]	8,724	[illegible]	[illegible]
64,400	64,450	[illegible]	8,731	[illegible]	[illegible]
64,450	64,500	[illegible]	8,739	[illegible]	[illegible]
64,500	64,550	[illegible]	8,746	[illegible]	[illegible]
64,550	64,600	[illegible]	8,754	[illegible]	[illegible]
64,600	64,650	[illegible]	8,761	[illegible]	[illegible]
64,650	64,700	[illegible]	8,769	[illegible]	[illegible]
64,700	64,750	[illegible]	8,776	[illegible]	[illegible]
64,750	64,800	[illegible]	8,784	[illegible]	[illegible]
64,800	64,850	[illegible]	8,791	[illegible]	[illegible]
64,850	64,900	[illegible]	8,799	[illegible]	[illegible]
64,900	64,950	[illegible]	8,806	[illegible]	[illegible]
64,950	65,000	[illegible]	[illegible]	[illegible]	[illegible]
65,000					
65,000	65,050	[illegible]	8,821	[illegible]	[illegible]
65,050	65,100	[illegible]	8,829	[illegible]	[illegible]
65,100	65,150	[illegible]	8,836	[illegible]	[illegible]
65,150	65,200	[illegible]	8,844	[illegible]	[illegible]
65,200	65,250	[illegible]	8,851	[illegible]	[illegible]
65,250	65,300	[illegible]	8,859	[illegible]	[illegible]
65,300	65,350	[illegible]	8,866	[illegible]	[illegible]
65,350	65,400	[illegible]	8,874	[illegible]	[illegible]
65,400	65,450	[illegible]	8,881	[illegible]	[illegible]
65,450	65,500	[illegible]	8,889	[illegible]	[illegible]
65,500	65,550	[illegible]	8,896	[illegible]	[illegible]
65,550	65,600	[illegible]	8,904	[illegible]	[illegible]
65,600	65,650	[illegible]	8,911	[illegible]	[illegible]
65,650	65,700	[illegible]	8,919	[illegible]	[illegible]
65,700	65,750	[illegible]	8,926	[illegible]	[illegible]
65,750	65,800	[illegible]	8,934	[illegible]	[illegible]
65,800	65,850	[illegible]	8,941	[illegible]	[illegible]
65,850	65,900	[illegible]	8,949	[illegible]	[illegible]
65,900	65,950	[illegible]	8,956	[illegible]	[illegible]
65,950	66,000	[illegible]	8,964	[illegible]	[illegible]

(Continued)

* This column must also be used by a qualifying widow(er)

If line 27 (taxable income) is— At least	But less than	And you are— Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
66,000					
66,000	66,050	[illegible]	[illegible]	[illegible]	10,759
66,050	66,100	[illegible]	[illegible]	[illegible]	10,771
66,100	66,150	[illegible]	[illegible]	[illegible]	10,784
66,150	66,200	[illegible]	[illegible]	[illegible]	10,796
66,200	66,250	[illegible]	[illegible]	[illegible]	[illegible]
66,250	66,300	[illegible]	[illegible]	[illegible]	[illegible]
66,300	66,350	[illegible]	[illegible]	12,320	[illegible]
66,350	66,400	[illegible]	[illegible]	[illegible]	[illegible]
66,400	66,450	[illegible]	[illegible]	[illegible]	[illegible]
66,450	66,500	[illegible]	[illegible]	[illegible]	[illegible]
66,500	66,550	[illegible]	[illegible]	[illegible]	[illegible]
66,550	66,600	[illegible]	[illegible]	[illegible]	[illegible]
66,600	66,650	[illegible]	[illegible]	[illegible]	[illegible]
66,650	66,700	[illegible]	[illegible]	[illegible]	[illegible]
66,700	66,750	[illegible]	[illegible]	[illegible]	[illegible]
66,750	66,800	[illegible]	[illegible]	[illegible]	[illegible]
66,800	66,850	[illegible]	[illegible]	[illegible]	[illegible]
66,850	66,900	[illegible]	[illegible]	[illegible]	[illegible]
66,900	66,950	[illegible]	[illegible]	[illegible]	[illegible]
66,950	67,000	[illegible]	[illegible]	[illegible]	[illegible]
67,000					
67,000	67,050	[illegible]	[illegible]	[illegible]	[illegible]
67,050	67,100	[illegible]	[illegible]	[illegible]	[illegible]
67,100	67,150	[illegible]	[illegible]	[illegible]	[illegible]
67,150	67,200	[illegible]	[illegible]	[illegible]	[illegible]
67,200	67,250	[illegible]	[illegible]	[illegible]	[illegible]
67,250	67,300	[illegible]	[illegible]	[illegible]	[illegible]
67,300	67,350	[illegible]	[illegible]	[illegible]	[illegible]
67,350	67,400	[illegible]	[illegible]	[illegible]	[illegible]
67,400	67,450	[illegible]	[illegible]	[illegible]	[illegible]
67,450	67,500	[illegible]	[illegible]	[illegible]	[illegible]
67,500	67,550	[illegible]	[illegible]	[illegible]	[illegible]
67,550	67,600	[illegible]	[illegible]	[illegible]	[illegible]
67,600	67,650	[illegible]	[illegible]	[illegible]	[illegible]
67,650	67,700	[illegible]	[illegible]	[illegible]	[illegible]
67,700	67,750	[illegible]	[illegible]	[illegible]	[illegible]
67,750	67,800	[illegible]	[illegible]	[illegible]	[illegible]
67,800	67,850	[illegible]	[illegible]	[illegible]	[illegible]
67,850	67,900	[illegible]	[illegible]	[illegible]	[illegible]
67,900	67,950	[illegible]	[illegible]	[illegible]	[illegible]
67,950	68,000	[illegible]	[illegible]	[illegible]	[illegible]
68,000					
68,000	68,050	[illegible]	9,271	[illegible]	[illegible]
68,050	68,100	[illegible]	9,279	[illegible]	[illegible]
68,100	68,150	[illegible]	9,286	[illegible]	[illegible]
68,150	68,200	[illegible]	9,294	[illegible]	[illegible]
68,200	68,250	[illegible]	9,301	[illegible]	[illegible]
68,250	68,300	[illegible]	9,309	[illegible]	[illegible]
68,300	68,350	[illegible]	9,316	[illegible]	[illegible]
68,350	68,400	[illegible]	9,324	[illegible]	[illegible]
68,400	68,450	[illegible]	9,331	[illegible]	[illegible]
68,450	68,500	[illegible]	9,339	[illegible]	[illegible]
68,500	68,550	[illegible]	9,346	[illegible]	[illegible]
68,550	68,600	[illegible]	9,354	[illegible]	[illegible]
68,600	68,650	[illegible]	9,361	[illegible]	[illegible]
68,650	68,700	[illegible]	9,369	[illegible]	[illegible]
68,700	68,750	[illegible]	9,376	[illegible]	[illegible]
68,750	68,800	[illegible]	9,384	[illegible]	[illegible]
68,800	68,850	[illegible]	9,391	[illegible]	[illegible]
68,850	68,900	[illegible]	9,399	[illegible]	[illegible]
68,900	68,950	[illegible]	9,406	[illegible]	[illegible]
68,950	69,000	[illegible]	9,414	[illegible]	[illegible]
69,000					
69,000	69,050	[illegible]	[illegible]	[illegible]	[illegible]
69,050	69,100	[illegible]	[illegible]	[illegible]	[illegible]
69,100	69,150	[illegible]	[illegible]	[illegible]	[illegible]
69,150	69,200	[illegible]	[illegible]	[illegible]	[illegible]
69,200	69,250	[illegible]	[illegible]	[illegible]	[illegible]
69,250	69,300	[illegible]	[illegible]	[illegible]	[illegible]
69,300	69,350	[illegible]	[illegible]	[illegible]	[illegible]
69,350	69,400	[illegible]	[illegible]	[illegible]	[illegible]
69,400	69,450	[illegible]	[illegible]	[illegible]	[illegible]
69,450	69,500	[illegible]	[illegible]	[illegible]	[illegible]
69,500	69,550	[illegible]	[illegible]	[illegible]	[illegible]
69,550	69,600	[illegible]	[illegible]	[illegible]	[illegible]
69,600	69,650	[illegible]	[illegible]	[illegible]	[illegible]
69,650	69,700	[illegible]	[illegible]	[illegible]	[illegible]
69,700	69,750	[illegible]	[illegible]	[illegible]	[illegible]
69,750	69,800	[illegible]	[illegible]	[illegible]	[illegible]
69,800	69,850	[illegible]	[illegible]	[illegible]	[illegible]
69,850	69,900	[illegible]	[illegible]	[illegible]	[illegible]
69,900	69,950	[illegible]	[illegible]	[illegible]	[illegible]
69,950	70,000	[illegible]	[illegible]	[illegible]	[illegible]
70,000					
70,000	70,050	[illegible]	[illegible]	[illegible]	[illegible]
70,050	70,100	[illegible]	[illegible]	[illegible]	[illegible]
70,100	70,150	[illegible]	[illegible]	[illegible]	[illegible]
70,150	70,200	[illegible]	[illegible]	[illegible]	[illegible]
70,200	70,250	[illegible]	[illegible]	[illegible]	[illegible]
70,250	70,300	[illegible]	[illegible]	[illegible]	[illegible]
70,300	70,350	[illegible]	[illegible]	[illegible]	[illegible]
70,350	70,400	[illegible]	[illegible]	[illegible]	[illegible]
70,400	70,450	[illegible]	[illegible]	[illegible]	[illegible]
70,450	70,500	[illegible]	[illegible]	[illegible]	[illegible]
70,500	70,550	[illegible]	[illegible]	[illegible]	[illegible]
70,550	70,600	[illegible]	[illegible]	[illegible]	[illegible]
70,600	70,650	[illegible]	[illegible]	[illegible]	[illegible]
70,650	70,700	[illegible]	[illegible]	[illegible]	[illegible]
70,700	70,750	[illegible]	[illegible]	[illegible]	[illegible]
70,750	70,800	[illegible]	[illegible]	[illegible]	[illegible]
70,800	70,850	[illegible]	[illegible]	[illegible]	[illegible]
70,850	70,900	[illegible]	[illegible]	[illegible]	[illegible]
70,900	70,950	[illegible]	[illegible]	[illegible]	[illegible]
70,950	71,000	[illegible]	[illegible]	[illegible]	[illegible]
71,000					
71,000	71,050	[illegible]	[illegible]	[illegible]	[illegible]
71,050	71,100	[illegible]	[illegible]	[illegible]	[illegible]
71,100	71,150	[illegible]	[illegible]	[illegible]	[illegible]
71,150	71,200	[illegible]	[illegible]	[illegible]	[illegible]
71,200	71,250	[illegible]	[illegible]	[illegible]	[illegible]
71,250	71,300	[illegible]	[illegible]	[illegible]	[illegible]
71,300	71,350	[illegible]	[illegible]	[illegible]	[illegible]
71,350	71,400	[illegible]	[illegible]	[illegible]	[illegible]
71,400	71,450	[illegible]	[illegible]	[illegible]	[illegible]
71,450	71,500	[illegible]	[illegible]	[illegible]	[illegible]
71,500	71,550	[illegible]	[illegible]	[illegible]	[illegible]
71,550	71,600	[illegible]	[illegible]	[illegible]	[illegible]
71,600	71,650	[illegible]	[illegible]	[illegible]	[illegible]
71,650	71,700	[illegible]	[illegible]	[illegible]	[illegible]
71,700	71,750	[illegible]	[illegible]	[illegible]	[illegible]
71,750	71,800	[illegible]	[illegible]	[illegible]	[illegible]
71,800	71,850	[illegible]	[illegible]	[illegible]	[illegible]
71,850	71,900	[illegible]	[illegible]	[illegible]	[illegible]
71,900	71,950	[illegible]	[illegible]	[illegible]	[illegible]
71,950	72,000	[illegible]	[illegible]	[illegible]	[illegible]
72,000					
72,000	72,050	[illegible]	[illegible]	[illegible]	[illegible]
72,050	72,100	[illegible]	[illegible]	[illegible]	[illegible]
72,100	72,150	[illegible]	[illegible]	[illegible]	[illegible]
72,150	72,200	[illegible]	[illegible]	[illegible]	[illegible]
72,200	72,250	[illegible]	[illegible]	[illegible]	[illegible]
72,250	72,300	[illegible]	[illegible]	[illegible]	[illegible]
72,300	72,350	[illegible]	[illegible]	[illegible]	[illegible]
72,350	72,400	[illegible]	[illegible]	[illegible]	[illegible]
72,400	72,450	[illegible]	[illegible]	[illegible]	[illegible]
72,450	72,500	[illegible]	[illegible]	[illegible]	[illegible]
72,500	72,550	[illegible]	[illegible]	[illegible]	[illegible]
72,550	72,600	[illegible]	[illegible]	[illegible]	[illegible]
72,600	72,650	[illegible]	[illegible]	[illegible]	[illegible]
72,650	72,700	[illegible]	[illegible]	[illegible]	[illegible]
72,700	72,750	[illegible]	[illegible]	[illegible]	[illegible]
72,750	72,800	[illegible]	[illegible]	[illegible]	[illegible]
72,800	72,850	[illegible]	[illegible]	[illegible]	[illegible]
72,850	72,900	[illegible]	[illegible]	[illegible]	[illegible]
72,900	72,950	[illegible]	[illegible]	[illegible]	[illegible]
72,950	73,000	[illegible]	[illegible]	[illegible]	[illegible]
73,000					
73,000	73,050	[illegible]	[illegible]	[illegible]	[illegible]
73,050	73,100	[illegible]	[illegible]	[illegible]	[illegible]
73,100	73,150	[illegible]	[illegible]	[illegible]	[illegible]
73,150	73,200	[illegible]	[illegible]	[illegible]	[illegible]
73,200	73,250	[illegible]	[illegible]	[illegible]	[illegible]
73,250	73,300	[illegible]	[illegible]	[illegible]	[illegible]
73,300	73,350	[illegible]	[illegible]	[illegible]	[illegible]
73,350	73,400	[illegible]	[illegible]	[illegible]	[illegible]
73,400	73,450	[illegible]	[illegible]	[illegible]	[illegible]
73,450	73,500	[illegible]	[illegible]	[illegible]	[illegible]
73,500	73,550	[illegible]	[illegible]	[illegible]	[illegible]
73,550	73,600	[illegible]	[illegible]	[illegible]	[illegible]
73,600	73,650	[illegible]	[illegible]	[illegible]	[illegible]
73,650	73,700	[illegible]	[illegible]	[illegible]	[illegible]
73,700	73,750	[illegible]	[illegible]	[illegible]	[illegible]
73,750	73,800	[illegible]	[illegible]	[illegible]	[illegible]
73,800	73,850	[illegible]	[illegible]	[illegible]	[illegible]
73,850	73,900	[illegible]	[illegible]	[illegible]	[illegible]
73,900	73,950	[illegible]	[illegible]	[illegible]	[illegible]
73,950	74,000	[illegible]	[illegible]	[illegible]	[illegible]
74,000					
74,000	74,050	[illegible]	[illegible]	[illegible]	[illegible]
74,050	74,100	[illegible]	[illegible]	[illegible]	[illegible]
74,100	74,150	[illegible]	[illegible]	[illegible]	[illegible]
74,150	74,200	[illegible]	[illegible]	[illegible]	[illegible]
74,200	74,250	[illegible]	[illegible]	[illegible]	[illegible]
74,250	74,300	[illegible]	[illegible]	[illegible]	[illegible]
74,300	74,350	[illegible]	[illegible]	[illegible]	[illegible]
74,350	74,400	[illegible]	[illegible]	[illegible]	[illegible]
74,400	74,450	[illegible]	[illegible]	[illegible]	[illegible]
74,450	74,500	[illegible]	[illegible]	[illegible]	[illegible]
74,500	74,550	[illegible]	[illegible]	[illegible]	[illegible]
74,550	74,600	[illegible]	[illegible]	[illegible]	[illegible]
74,600	74,650	[illegible]	[illegible]	[illegible]	[illegible]
74,650	74,700	[illegible]	[illegible]	[illegible]	[illegible]
74,700	74,750	[illegible]	[illegible]	[illegible]	[illegible]
74,750	74,800	[illegible]	[illegible]	[illegible]	[illegible]
74,800	74,850	[illegible]	[illegible]	[illegible]	[illegible]
74,850	74,900	[illegible]	[illegible]	[illegible]	[illegible]
74,900	74,950	[illegible]	[illegible]	[illegible]	[illegible]
74,950	75,000	[illegible]	[illegible]	[illegible]	[illegible]

(Continued)

* This column must also be used by a qualifying widow(er)

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
75,000					
75,000	75,050	[illegible]	[illegible]	[illegible]	[illegible]
75,050	75,100	[illegible]	[illegible]	[illegible]	[illegible]
75,100	75,150	[illegible]	[illegible]	[illegible]	[illegible]
75,150	75,200	[illegible]	[illegible]	[illegible]	[illegible]
75,200	75,250	[illegible]	[illegible]	[illegible]	[illegible]
75,250	75,300	[illegible]	[illegible]	[illegible]	[illegible]
75,300	75,350	[illegible]	[illegible]	[illegible]	[illegible]
75,350	75,400	[illegible]	[illegible]	[illegible]	[illegible]
75,400	75,450	[illegible]	[illegible]	[illegible]	[illegible]
75,450	75,500	[illegible]	[illegible]	[illegible]	[illegible]
75,500	75,550	[illegible]	[illegible]	[illegible]	[illegible]
75,550	75,600	[illegible]	[illegible]	[illegible]	[illegible]
75,600	75,650	[illegible]	[illegible]	[illegible]	[illegible]
75,650	75,700	[illegible]	[illegible]	[illegible]	[illegible]
75,700	75,750	[illegible]	[illegible]	[illegible]	[illegible]
75,750	75,800	[illegible]	[illegible]	[illegible]	[illegible]
75,800	75,850	[illegible]	[illegible]	[illegible]	[illegible]
75,850	75,900	[illegible]	[illegible]	[illegible]	[illegible]
75,900	75,950	[illegible]	[illegible]	[illegible]	[illegible]
75,950	76,000	[illegible]	[illegible]	[illegible]	[illegible]
76,000					
76,000	76,050	[illegible]	[illegible]	[illegible]	[illegible]
76,050	76,100	[illegible]	[illegible]	[illegible]	[illegible]
76,100	76,150	[illegible]	[illegible]	[illegible]	[illegible]
76,150	76,200	[illegible]	[illegible]	[illegible]	[illegible]
76,200	76,250	[illegible]	[illegible]	[illegible]	[illegible]
76,250	76,300	[illegible]	[illegible]	[illegible]	[illegible]
76,300	76,350	[illegible]	[illegible]	[illegible]	[illegible]
76,350	76,400	[illegible]	[illegible]	[illegible]	[illegible]
76,400	76,450	[illegible]	[illegible]	[illegible]	[illegible]
76,450	76,500	[illegible]	[illegible]	[illegible]	[illegible]
76,500	76,550	[illegible]	[illegible]	[illegible]	[illegible]
76,550	76,600	[illegible]	[illegible]	[illegible]	[illegible]
76,600	76,650	[illegible]	[illegible]	[illegible]	[illegible]
76,650	76,700	[illegible]	[illegible]	[illegible]	[illegible]
76,700	76,750	[illegible]	[illegible]	[illegible]	[illegible]
76,750	76,800	[illegible]	[illegible]	[illegible]	[illegible]
76,800	76,850	[illegible]	[illegible]	[illegible]	[illegible]
76,850	76,900	[illegible]	[illegible]	[illegible]	[illegible]
76,900	76,950	[illegible]	[illegible]	[illegible]	[illegible]
76,950	77,000	[illegible]	[illegible]	[illegible]	[illegible]
77,000					
77,000	77,050	[illegible]	10,734	[illegible]	[illegible]
77,050	77,100	[illegible]	10,746	[illegible]	[illegible]
77,100	77,150	[illegible]	10,759	[illegible]	[illegible]
77,150	77,200	[illegible]	10,771	[illegible]	[illegible]
77,200	77,250	[illegible]	10,784	[illegible]	[illegible]
77,250	77,300	[illegible]	10,796	[illegible]	[illegible]
77,300	77,350	[illegible]	10,809	[illegible]	[illegible]
77,350	77,400	[illegible]	10,821	[illegible]	[illegible]
77,400	77,450	[illegible]	10,834	[illegible]	[illegible]
77,450	77,500	[illegible]	10,846	[illegible]	[illegible]
77,500	77,550	[illegible]	10,859	[illegible]	[illegible]
77,550	77,600	[illegible]	10,871	[illegible]	[illegible]
77,600	77,650	[illegible]	10,884	[illegible]	[illegible]
77,650	77,700	[illegible]	10,896	[illegible]	[illegible]
77,700	77,750	[illegible]	10,909	[illegible]	[illegible]
77,750	77,800	[illegible]	10,921	[illegible]	[illegible]
77,800	77,850	[illegible]	10,934	[illegible]	[illegible]
77,850	77,900	[illegible]	10,946	[illegible]	[illegible]
77,900	77,950	[illegible]	10,959	[illegible]	[illegible]
77,950	78,000	[illegible]	10,971	[illegible]	[illegible]

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
78,000					
78,000	78,050	[illegible]	[illegible]	[illegible]	[illegible]
78,050	78,100	[illegible]	[illegible]	[illegible]	[illegible]
78,100	78,150	[illegible]	[illegible]	[illegible]	[illegible]
78,150	78,200	[illegible]	[illegible]	[illegible]	[illegible]
78,200	78,250	[illegible]	[illegible]	[illegible]	[illegible]
78,250	78,300	[illegible]	[illegible]	[illegible]	[illegible]
78,300	78,350	[illegible]	[illegible]	[illegible]	[illegible]
78,350	78,400	[illegible]	[illegible]	[illegible]	[illegible]
78,400	78,450	[illegible]	[illegible]	[illegible]	[illegible]
78,450	78,500	[illegible]	[illegible]	[illegible]	[illegible]
78,500	78,550	[illegible]	[illegible]	[illegible]	[illegible]
78,550	78,600	[illegible]	[illegible]	[illegible]	[illegible]
78,600	78,650	[illegible]	[illegible]	[illegible]	[illegible]
78,650	78,700	[illegible]	[illegible]	[illegible]	[illegible]
78,700	78,750	[illegible]	[illegible]	[illegible]	[illegible]
78,750	78,800	[illegible]	[illegible]	[illegible]	[illegible]
78,800	78,850	[illegible]	[illegible]	[illegible]	[illegible]
78,850	78,900	[illegible]	[illegible]	[illegible]	[illegible]
78,900	78,950	[illegible]	[illegible]	[illegible]	[illegible]
78,950	79,000	[illegible]	[illegible]	[illegible]	[illegible]
79,000					
79,000	79,050	[illegible]	[illegible]	[illegible]	[illegible]
79,050	79,100	[illegible]	[illegible]	[illegible]	[illegible]
79,100	79,150	[illegible]	[illegible]	[illegible]	[illegible]
79,150	79,200	[illegible]	[illegible]	[illegible]	[illegible]
79,200	79,250	[illegible]	[illegible]	[illegible]	[illegible]
79,250	79,300	[illegible]	[illegible]	[illegible]	[illegible]
79,300	79,350	[illegible]	[illegible]	[illegible]	[illegible]
79,350	79,400	[illegible]	[illegible]	[illegible]	[illegible]
79,400	79,450	[illegible]	[illegible]	[illegible]	[illegible]
79,450	79,500	[illegible]	[illegible]	[illegible]	[illegible]
79,500	79,550	[illegible]	[illegible]	[illegible]	[illegible]
79,550	79,600	[illegible]	[illegible]	[illegible]	[illegible]
79,600	79,650	[illegible]	[illegible]	[illegible]	[illegible]
79,650	79,700	[illegible]	[illegible]	[illegible]	[illegible]
79,700	79,750	[illegible]	[illegible]	[illegible]	[illegible]
79,750	79,800	[illegible]	[illegible]	[illegible]	[illegible]
79,800	79,850	[illegible]	[illegible]	[illegible]	[illegible]
79,850	79,900	[illegible]	[illegible]	[illegible]	[illegible]
79,900	79,950	[illegible]	[illegible]	[illegible]	[illegible]
79,950	80,000	[illegible]	[illegible]	[illegible]	[illegible]
80,000					
80,000	80,050	[illegible]	[illegible]	[illegible]	[illegible]
80,050	80,100	[illegible]	[illegible]	[illegible]	[illegible]
80,100	80,150	[illegible]	[illegible]	[illegible]	[illegible]
80,150	80,200	[illegible]	[illegible]	[illegible]	[illegible]
80,200	80,250	[illegible]	[illegible]	[illegible]	[illegible]
80,250	80,300	[illegible]	[illegible]	[illegible]	[illegible]
80,300	80,350	[illegible]	[illegible]	[illegible]	[illegible]
80,350	80,400	[illegible]	[illegible]	[illegible]	[illegible]
80,400	80,450	[illegible]	[illegible]	[illegible]	[illegible]
80,450	80,500	[illegible]	[illegible]	[illegible]	[illegible]
80,500	80,550	[illegible]	[illegible]	[illegible]	[illegible]
80,550	80,600	[illegible]	[illegible]	[illegible]	[illegible]
80,600	80,650	[illegible]	[illegible]	[illegible]	[illegible]
80,650	80,700	[illegible]	[illegible]	[illegible]	[illegible]
80,700	80,750	[illegible]	[illegible]	[illegible]	[illegible]
80,750	80,800	[illegible]	[illegible]	[illegible]	[illegible]
80,800	80,850	[illegible]	[illegible]	[illegible]	[illegible]
80,850	80,900	[illegible]	[illegible]	[illegible]	[illegible]
80,900	80,950	[illegible]	[illegible]	[illegible]	[illegible]
80,950	81,000	[illegible]	[illegible]	[illegible]	[illegible]

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
81,000					
81,000	81,050	[illegible]	[illegible]	[illegible]	[illegible]
81,050	81,100	[illegible]	[illegible]	[illegible]	[illegible]
81,100	81,150	[illegible]	[illegible]	[illegible]	[illegible]
81,150	81,200	[illegible]	[illegible]	[illegible]	[illegible]
81,200	81,250	[illegible]	[illegible]	[illegible]	[illegible]
81,250	81,300	[illegible]	[illegible]	[illegible]	[illegible]
81,300	81,350	[illegible]	[illegible]	[illegible]	[illegible]
81,350	81,400	[illegible]	[illegible]	[illegible]	[illegible]
81,400	81,450	[illegible]	[illegible]	[illegible]	[illegible]
81,450	81,500	[illegible]	[illegible]	[illegible]	[illegible]
81,500	81,550	[illegible]	[illegible]	[illegible]	[illegible]
81,550	81,600	[illegible]	[illegible]	[illegible]	[illegible]
81,600	81,650	[illegible]	[illegible]	[illegible]	[illegible]
81,650	81,700	[illegible]	[illegible]	[illegible]	[illegible]
81,700	81,750	[illegible]	[illegible]	[illegible]	[illegible]
81,750	81,800	[illegible]	[illegible]	[illegible]	[illegible]
81,800	81,850	[illegible]	[illegible]	[illegible]	[illegible]
81,850	81,900	[illegible]	[illegible]	[illegible]	[illegible]
81,900	81,950	[illegible]	[illegible]	[illegible]	[illegible]
81,950	82,000	[illegible]	[illegible]	[illegible]	[illegible]
82,000					
82,000	82,050	[illegible]	11,984	[illegible]	[illegible]
82,050	82,100	[illegible]	11,996	[illegible]	[illegible]
82,100	82,150	[illegible]	12,009	[illegible]	[illegible]
82,150	82,200	[illegible]	12,021	[illegible]	[illegible]
82,200	82,250	[illegible]	12,034	[illegible]	[illegible]
82,250	82,300	[illegible]	12,046	[illegible]	[illegible]
82,300	82,350	[illegible]	12,059	[illegible]	[illegible]
82,350	82,400	[illegible]	12,071	[illegible]	[illegible]
82,400	82,450	[illegible]	12,084	[illegible]	[illegible]
82,450	82,500	[illegible]	12,096	[illegible]	[illegible]
82,500	82,550	[illegible]	12,109	[illegible]	[illegible]
82,550	82,600	[illegible]	12,121	[illegible]	[illegible]
82,600	82,650	[illegible]	12,134	[illegible]	[illegible]
82,650	82,700	[illegible]	12,146	[illegible]	[illegible]
82,700	82,750	[illegible]	12,159	[illegible]	[illegible]
82,750	82,800	[illegible]	12,171	[illegible]	[illegible]
82,800	82,850	[illegible]	12,184	[illegible]	[illegible]
82,850	82,900	[illegible]	12,196	[illegible]	[illegible]
82,900	82,950	[illegible]	12,209	[illegible]	[illegible]
82,950	83,000	[illegible]	12,221	[illegible]	[illegible]
83,000					
83,000	83,050	[illegible]	[illegible]	[illegible]	[illegible]
83,050	83,100	[illegible]	[illegible]	[illegible]	[illegible]
83,100	83,150	[illegible]	[illegible]	[illegible]	[illegible]
83,150	83,200	[illegible]	[illegible]	[illegible]	[illegible]
83,200	83,250	[illegible]	[illegible]	[illegible]	[illegible]
83,250	83,300	[illegible]	[illegible]	[illegible]	[illegible]
83,300	83,350	[illegible]	[illegible]	[illegible]	[illegible]
83,350	83,400	[illegible]	[illegible]	[illegible]	[illegible]
83,400	83,450	[illegible]	[illegible]	[illegible]	[illegible]
83,450	83,500	[illegible]	[illegible]	[illegible]	[illegible]
83,500	83,550	[illegible]	[illegible]	[illegible]	[illegible]
83,550	83,600	[illegible]	[illegible]	[illegible]	[illegible]
83,600	83,650	[illegible]	[illegible]	[illegible]	[illegible]
83,650	83,700	[illegible]	[illegible]	[illegible]	[illegible]
83,700	83,750	[illegible]	[illegible]	[illegible]	[illegible]
83,750	83,800	[illegible]	[illegible]	[illegible]	[illegible]
83,800	83,850	[illegible]	[illegible]	[illegible]	[illegible]
83,850	83,900	[illegible]	[illegible]	[illegible]	[illegible]
83,900	83,950	[illegible]	[illegible]	[illegible]	[illegible]
83,950	84,000	[illegible]	[illegible]	[illegible]	[illegible]

(Continued)

* This column must also be used by a qualifying widow(er)

If line 27 (taxable income) is— At least	But less than	And you are— Single	Married filing jointly *	Married filing sepa-rately	Head of a house-hold
		Your tax is—			
84,000					
84,000	84,050	[illegible]	[illegible]	[illegible]	[illegible]
84,050	84,100	[illegible]	[illegible]	[illegible]	[illegible]
84,100	84,150	[illegible]	[illegible]	[illegible]	[illegible]
84,150	84,200	[illegible]	[illegible]	[illegible]	[illegible]
84,200	84,250	[illegible]	[illegible]	[illegible]	[illegible]
84,250	84,300	[illegible]	[illegible]	[illegible]	[illegible]
84,300	84,350	[illegible]	[illegible]	[illegible]	[illegible]
84,350	84,400	[illegible]	[illegible]	[illegible]	[illegible]
84,400	84,450	[illegible]	[illegible]	[illegible]	[illegible]
84,450	84,500	[illegible]	[illegible]	[illegible]	[illegible]
84,500	84,550	[illegible]	[illegible]	[illegible]	[illegible]
84,550	84,600	[illegible]	[illegible]	[illegible]	[illegible]
84,600	84,650	[illegible]	[illegible]	[illegible]	[illegible]
84,650	84,700	[illegible]	[illegible]	[illegible]	[illegible]
84,700	84,750	[illegible]	[illegible]	[illegible]	[illegible]
84,750	84,800	[illegible]	[illegible]	[illegible]	[illegible]
84,800	84,850	[illegible]	[illegible]	[illegible]	[illegible]
84,850	84,900	[illegible]	[illegible]	[illegible]	[illegible]
84,900	84,950	[illegible]	[illegible]	[illegible]	[illegible]
84,950	85,000	[illegible]	[illegible]	[illegible]	[illegible]
85,000					
85,000	85,050	[illegible]	[illegible]	[illegible]	[illegible]
85,050	85,100	[illegible]	[illegible]	[illegible]	[illegible]
85,100	85,150	[illegible]	[illegible]	[illegible]	[illegible]
85,150	85,200	[illegible]	[illegible]	[illegible]	[illegible]
85,200	85,250	[illegible]	[illegible]	[illegible]	[illegible]
85,250	85,300	[illegible]	[illegible]	[illegible]	[illegible]
85,300	85,350	[illegible]	[illegible]	[illegible]	[illegible]
85,350	85,400	[illegible]	[illegible]	[illegible]	[illegible]
85,400	85,450	[illegible]	[illegible]	[illegible]	[illegible]
85,450	85,500	[illegible]	[illegible]	[illegible]	[illegible]
85,500	85,550	[illegible]	[illegible]	[illegible]	[illegible]
85,550	85,600	[illegible]	[illegible]	[illegible]	[illegible]
85,600	85,650	[illegible]	[illegible]	[illegible]	[illegible]
85,650	85,700	[illegible]	[illegible]	[illegible]	[illegible]
85,700	85,750	[illegible]	[illegible]	[illegible]	[illegible]
85,750	85,800	[illegible]	[illegible]	[illegible]	[illegible]
85,800	85,850	[illegible]	[illegible]	[illegible]	[illegible]
85,850	85,900	[illegible]	[illegible]	[illegible]	[illegible]
85,900	85,950	[illegible]	[illegible]	[illegible]	[illegible]
85,950	86,000	[illegible]	[illegible]	[illegible]	[illegible]
86,000					
86,000	86,050	[illegible]	[illegible]	[illegible]	[illegible]
86,050	86,100	[illegible]	[illegible]	[illegible]	[illegible]
86,100	86,150	[illegible]	[illegible]	[illegible]	[illegible]
86,150	86,200	[illegible]	[illegible]	[illegible]	[illegible]
86,200	86,250	[illegible]	[illegible]	[illegible]	[illegible]
86,250	86,300	[illegible]	[illegible]	[illegible]	[illegible]
86,300	86,350	[illegible]	[illegible]	[illegible]	[illegible]
86,350	86,400	[illegible]	[illegible]	[illegible]	[illegible]
86,400	86,450	[illegible]	[illegible]	[illegible]	[illegible]
86,450	86,500	[illegible]	[illegible]	[illegible]	[illegible]
86,500	86,550	[illegible]	[illegible]	[illegible]	[illegible]
86,550	86,600	[illegible]	[illegible]	[illegible]	[illegible]
86,600	86,650	[illegible]	[illegible]	[illegible]	[illegible]
86,650	86,700	[illegible]	[illegible]	[illegible]	[illegible]
86,700	86,750	[illegible]	[illegible]	[illegible]	[illegible]
86,750	86,800	[illegible]	[illegible]	[illegible]	[illegible]
86,800	86,850	[illegible]	[illegible]	[illegible]	[illegible]
86,850	86,900	[illegible]	[illegible]	[illegible]	[illegible]
86,900	86,950	[illegible]	[illegible]	[illegible]	[illegible]
86,950	87,000	[illegible]	[illegible]	[illegible]	[illegible]

If line 27 (taxable income) is— At least	But less than	And you are— Single	Married filing jointly *	Married filing sepa-rately	Head of a house-hold
		Your tax is—			
87,000					
87,000	87,050	[illegible]	[illegible]	[illegible]	[illegible]
87,050	87,100	[illegible]	[illegible]	[illegible]	[illegible]
87,100	87,150	[illegible]	[illegible]	[illegible]	[illegible]
87,150	87,200	[illegible]	[illegible]	[illegible]	[illegible]
87,200	87,250	[illegible]	[illegible]	[illegible]	[illegible]
87,250	87,300	[illegible]	[illegible]	[illegible]	[illegible]
87,300	87,350	[illegible]	[illegible]	[illegible]	[illegible]
87,350	87,400	[illegible]	[illegible]	[illegible]	[illegible]
87,400	87,450	[illegible]	[illegible]	[illegible]	[illegible]
87,450	87,500	[illegible]	[illegible]	[illegible]	[illegible]
87,500	87,550	[illegible]	[illegible]	[illegible]	[illegible]
87,550	87,600	[illegible]	[illegible]	[illegible]	[illegible]
87,600	87,650	[illegible]	[illegible]	[illegible]	[illegible]
87,650	87,700	[illegible]	[illegible]	[illegible]	[illegible]
87,700	87,750	[illegible]	[illegible]	[illegible]	[illegible]
87,750	87,800	[illegible]	[illegible]	[illegible]	[illegible]
87,800	87,850	[illegible]	[illegible]	[illegible]	[illegible]
87,850	87,900	[illegible]	[illegible]	[illegible]	[illegible]
87,900	87,950	[illegible]	[illegible]	[illegible]	[illegible]
87,950	88,000	[illegible]	[illegible]	[illegible]	[illegible]
88,000					
88,000	88,050	[illegible]	[illegible]	[illegible]	[illegible]
88,050	88,100	[illegible]	[illegible]	[illegible]	[illegible]
88,100	88,150	[illegible]	[illegible]	[illegible]	[illegible]
88,150	88,200	[illegible]	[illegible]	[illegible]	[illegible]
88,200	88,250	[illegible]	[illegible]	[illegible]	[illegible]
88,250	88,300	[illegible]	[illegible]	[illegible]	[illegible]
88,300	88,350	[illegible]	[illegible]	[illegible]	[illegible]
88,350	88,400	[illegible]	[illegible]	[illegible]	[illegible]
88,400	88,450	[illegible]	[illegible]	[illegible]	[illegible]
88,450	88,500	[illegible]	[illegible]	[illegible]	[illegible]
88,500	88,550	[illegible]	[illegible]	[illegible]	[illegible]
88,550	88,600	[illegible]	[illegible]	[illegible]	[illegible]
88,600	88,650	[illegible]	[illegible]	[illegible]	[illegible]
88,650	88,700	[illegible]	[illegible]	[illegible]	[illegible]
88,700	88,750	[illegible]	[illegible]	[illegible]	[illegible]
88,750	88,800	[illegible]	[illegible]	[illegible]	[illegible]
88,800	88,850	[illegible]	[illegible]	[illegible]	[illegible]
88,850	88,900	[illegible]	[illegible]	[illegible]	[illegible]
88,900	88,950	[illegible]	[illegible]	[illegible]	[illegible]
88,950	89,000	[illegible]	[illegible]	[illegible]	[illegible]
89,000					
89,000	89,050	[illegible]	[illegible]	[illegible]	[illegible]
89,050	89,100	[illegible]	[illegible]	[illegible]	[illegible]
89,100	89,150	[illegible]	[illegible]	[illegible]	[illegible]
89,150	89,200	[illegible]	[illegible]	[illegible]	[illegible]
89,200	89,250	[illegible]	[illegible]	[illegible]	[illegible]
89,250	89,300	[illegible]	[illegible]	[illegible]	[illegible]
89,300	89,350	[illegible]	[illegible]	[illegible]	[illegible]
89,350	89,400	[illegible]	[illegible]	[illegible]	[illegible]
89,400	89,450	[illegible]	[illegible]	[illegible]	[illegible]
89,450	89,500	[illegible]	[illegible]	[illegible]	[illegible]
89,500	89,550	[illegible]	[illegible]	[illegible]	[illegible]
89,550	89,600	[illegible]	[illegible]	[illegible]	[illegible]
89,600	89,650	[illegible]	[illegible]	[illegible]	[illegible]
89,650	89,700	[illegible]	[illegible]	[illegible]	[illegible]
89,700	89,750	[illegible]	[illegible]	[illegible]	[illegible]
89,750	89,800	[illegible]	[illegible]	[illegible]	[illegible]
89,800	89,850	[illegible]	[illegible]	[illegible]	[illegible]
89,850	89,900	[illegible]	[illegible]	[illegible]	[illegible]
89,900	89,950	[illegible]	[illegible]	[illegible]	[illegible]
89,950	90,000	[illegible]	[illegible]	[illegible]	[illegible]

If line 27 (taxable income) is— At least	But less than	And you are— Single	Married filing jointly *	Married filing sepa-rately	Head of a house-hold
		Your tax is—			
90,000					
90,000	90,050	[illegible]	[illegible]	[illegible]	[illegible]
90,050	90,100	[illegible]	[illegible]	[illegible]	[illegible]
90,100	90,150	[illegible]	[illegible]	[illegible]	[illegible]
90,150	90,200	[illegible]	[illegible]	[illegible]	[illegible]
90,200	90,250	[illegible]	[illegible]	[illegible]	[illegible]
90,250	90,300	[illegible]	[illegible]	[illegible]	[illegible]
90,300	90,350	[illegible]	[illegible]	[illegible]	[illegible]
90,350	90,400	[illegible]	[illegible]	[illegible]	[illegible]
90,400	90,450	[illegible]	[illegible]	[illegible]	[illegible]
90,450	90,500	[illegible]	[illegible]	[illegible]	[illegible]
90,500	90,550	[illegible]	[illegible]	[illegible]	[illegible]
90,550	90,600	[illegible]	[illegible]	[illegible]	[illegible]
90,600	90,650	[illegible]	[illegible]	[illegible]	[illegible]
90,650	90,700	[illegible]	[illegible]	[illegible]	[illegible]
90,700	90,750	[illegible]	[illegible]	[illegible]	[illegible]
90,750	90,800	[illegible]	[illegible]	[illegible]	[illegible]
90,800	90,850	[illegible]	[illegible]	[illegible]	[illegible]
90,850	90,900	[illegible]	[illegible]	[illegible]	[illegible]
90,900	90,950	[illegible]	[illegible]	[illegible]	[illegible]
90,950	91,000	[illegible]	[illegible]	[illegible]	[illegible]
91,000					
91,000	91,050	[illegible]	[illegible]	[illegible]	[illegible]
91,050	91,100	[illegible]	[illegible]	[illegible]	[illegible]
91,100	91,150	[illegible]	[illegible]	[illegible]	[illegible]
91,150	91,200	[illegible]	[illegible]	[illegible]	[illegible]
91,200	91,250	[illegible]	[illegible]	[illegible]	[illegible]
91,250	91,300	[illegible]	[illegible]	[illegible]	[illegible]
91,300	91,350	[illegible]	[illegible]	[illegible]	[illegible]
91,350	91,400	[illegible]	[illegible]	[illegible]	[illegible]
91,400	91,450	[illegible]	[illegible]	[illegible]	[illegible]
91,450	91,500	[illegible]	[illegible]	[illegible]	[illegible]
91,500	91,550	[illegible]	[illegible]	[illegible]	[illegible]
91,550	91,600	[illegible]	[illegible]	[illegible]	[illegible]
91,600	91,650	[illegible]	[illegible]	[illegible]	[illegible]
91,650	91,700	[illegible]	[illegible]	[illegible]	[illegible]
91,700	91,750	[illegible]	[illegible]	[illegible]	[illegible]
91,750	91,800	[illegible]	[illegible]	[illegible]	[illegible]
91,800	91,850	[illegible]	[illegible]	[illegible]	[illegible]
91,850	91,900	[illegible]	[illegible]	[illegible]	[illegible]
91,900	91,950	[illegible]	[illegible]	[illegible]	[illegible]
91,950	92,000	[illegible]	[illegible]	[illegible]	[illegible]
92,000					
92,000	92,050	[illegible]	[illegible]	[illegible]	[illegible]
92,050	92,100	[illegible]	[illegible]	[illegible]	[illegible]
92,100	92,150	[illegible]	[illegible]	[illegible]	[illegible]
92,150	92,200	[illegible]	[illegible]	[illegible]	[illegible]
92,200	92,250	[illegible]	[illegible]	[illegible]	[illegible]
92,250	92,300	[illegible]	[illegible]	[illegible]	[illegible]
92,300	92,350	[illegible]	[illegible]	[illegible]	[illegible]
92,350	92,400	[illegible]	[illegible]	[illegible]	[illegible]
92,400	92,450	[illegible]	[illegible]	[illegible]	[illegible]
92,450	92,500	[illegible]	[illegible]	[illegible]	[illegible]
92,500	92,550	[illegible]	[illegible]	[illegible]	[illegible]
92,550	92,600	[illegible]	[illegible]	[illegible]	[illegible]
92,600	92,650	[illegible]	[illegible]	[illegible]	[illegible]
92,650	92,700	[illegible]	[illegible]	[illegible]	[illegible]
92,700	92,750	[illegible]	[illegible]	[illegible]	[illegible]
92,750	92,800	[illegible]	[illegible]	[illegible]	[illegible]
92,800	92,850	[illegible]	[illegible]	[illegible]	[illegible]
92,850	92,900	[illegible]	[illegible]	[illegible]	[illegible]
92,900	92,950	[illegible]	[illegible]	[illegible]	[illegible]
92,950	93,000	[illegible]	[illegible]	[illegible]	[illegible]

(Continued)

* This column must also be used by a qualifying widow(er)

If line 27 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
93,000					
93,000	93,050	[illegible]	[illegible]	[illegible]	[illegible]
93,050	93,100	19,043	[illegible]	[illegible]	[illegible]
93,100	93,150	[illegible]	[illegible]	[illegible]	[illegible]
93,150	93,200	[illegible]	[illegible]	[illegible]	[illegible]
93,200	93,250	[illegible]	[illegible]	[illegible]	[illegible]
93,250	93,300	[illegible]	[illegible]	[illegible]	[illegible]
93,300	93,350	[illegible]	[illegible]	[illegible]	[illegible]
93,350	93,400	[illegible]	[illegible]	[illegible]	[illegible]
93,400	93,450	[illegible]	[illegible]	[illegible]	[illegible]
93,450	93,500	[illegible]	[illegible]	[illegible]	[illegible]
93,500	93,550	[illegible]	[illegible]	[illegible]	[illegible]
93,550	93,600	[illegible]	[illegible]	[illegible]	[illegible]
93,600	93,650	[illegible]	[illegible]	[illegible]	[illegible]
93,650	93,700	[illegible]	[illegible]	[illegible]	[illegible]
93,700	93,750	[illegible]	[illegible]	[illegible]	[illegible]
93,750	93,800	[illegible]	[illegible]	[illegible]	[illegible]
93,800	93,850	[illegible]	[illegible]	[illegible]	[illegible]
93,850	93,900	[illegible]	[illegible]	[illegible]	[illegible]
93,900	93,950	[illegible]	[illegible]	[illegible]	[illegible]
93,950	94,000	[illegible]	[illegible]	[illegible]	[illegible]
94,000					
94,000	94,050	[illegible]	[illegible]	[illegible]	[illegible]
94,050	94,100	[illegible]	[illegible]	[illegible]	[illegible]
94,100	94,150	[illegible]	[illegible]	[illegible]	[illegible]
94,150	94,200	[illegible]	[illegible]	[illegible]	[illegible]
94,200	94,250	[illegible]	[illegible]	[illegible]	[illegible]
94,250	94,300	[illegible]	[illegible]	[illegible]	[illegible]
94,300	94,350	[illegible]	[illegible]	[illegible]	[illegible]
94,350	94,400	[illegible]	[illegible]	[illegible]	[illegible]
94,400	94,450	[illegible]	[illegible]	[illegible]	[illegible]
94,450	94,500	[illegible]	[illegible]	[illegible]	[illegible]
94,500	94,550	[illegible]	[illegible]	[illegible]	[illegible]
94,550	94,600	[illegible]	[illegible]	[illegible]	[illegible]
94,600	94,650	[illegible]	[illegible]	[illegible]	[illegible]
94,650	94,700	[illegible]	[illegible]	[illegible]	[illegible]
94,700	94,750	[illegible]	[illegible]	[illegible]	[illegible]
94,750	94,800	[illegible]	[illegible]	[illegible]	[illegible]
94,800	94,850	[illegible]	[illegible]	[illegible]	[illegible]
94,850	94,900	[illegible]	[illegible]	[illegible]	[illegible]
94,900	94,950	[illegible]	[illegible]	[illegible]	[illegible]
94,950	95,000	[illegible]	[illegible]	[illegible]	[illegible]
95,000					
95,000	95,050	[illegible]	[illegible]	[illegible]	[illegible]
95,050	95,100	[illegible]	[illegible]	[illegible]	[illegible]
95,100	95,150	[illegible]	[illegible]	[illegible]	[illegible]
95,150	95,200	[illegible]	[illegible]	[illegible]	[illegible]
95,200	95,250	[illegible]	[illegible]	[illegible]	[illegible]
95,250	95,300	[illegible]	[illegible]	[illegible]	[illegible]
95,300	95,350	[illegible]	[illegible]	[illegible]	[illegible]
95,350	95,400	[illegible]	[illegible]	[illegible]	[illegible]
95,400	95,450	[illegible]	[illegible]	[illegible]	[illegible]
95,450	95,500	[illegible]	[illegible]	[illegible]	[illegible]
95,500	95,550	[illegible]	[illegible]	[illegible]	[illegible]
95,550	95,600	[illegible]	[illegible]	[illegible]	[illegible]
95,600	95,650	[illegible]	[illegible]	[illegible]	[illegible]
95,650	95,700	[illegible]	[illegible]	[illegible]	[illegible]
95,700	95,750	[illegible]	[illegible]	[illegible]	[illegible]
95,750	95,800	[illegible]	[illegible]	[illegible]	[illegible]
95,800	95,850	[illegible]	[illegible]	[illegible]	[illegible]
95,850	95,900	[illegible]	[illegible]	[illegible]	[illegible]
95,900	95,950	[illegible]	[illegible]	[illegible]	[illegible]
95,950	96,000	[illegible]	[illegible]	[illegible]	[illegible]
96,000					
96,000	96,050	[illegible]	[illegible]	[illegible]	[illegible]
96,050	96,100	[illegible]	[illegible]	[illegible]	[illegible]
96,100	96,150	[illegible]	[illegible]	[illegible]	[illegible]
96,150	96,200	[illegible]	[illegible]	[illegible]	[illegible]
96,200	96,250	[illegible]	[illegible]	[illegible]	[illegible]
96,250	96,300	[illegible]	[illegible]	[illegible]	[illegible]
96,300	96,350	[illegible]	[illegible]	[illegible]	[illegible]
96,350	96,400	[illegible]	[illegible]	[illegible]	[illegible]
96,400	96,450	[illegible]	[illegible]	[illegible]	[illegible]
96,450	96,500	[illegible]	[illegible]	[illegible]	[illegible]
96,500	96,550	[illegible]	[illegible]	[illegible]	[illegible]
96,550	96,600	[illegible]	[illegible]	[illegible]	[illegible]
96,600	96,650	[illegible]	[illegible]	[illegible]	[illegible]
96,650	96,700	[illegible]	[illegible]	[illegible]	[illegible]
96,700	96,750	[illegible]	[illegible]	[illegible]	[illegible]
96,750	96,800	[illegible]	[illegible]	[illegible]	[illegible]
96,800	96,850	[illegible]	[illegible]	[illegible]	[illegible]
96,850	96,900	[illegible]	[illegible]	[illegible]	[illegible]
96,900	96,950	[illegible]	[illegible]	[illegible]	[illegible]
96,950	97,000	[illegible]	[illegible]	[illegible]	[illegible]
97,000					
97,000	97,050	[illegible]	[illegible]	[illegible]	[illegible]
97,050	97,100	[illegible]	[illegible]	[illegible]	[illegible]
97,100	97,150	[illegible]	[illegible]	[illegible]	[illegible]
97,150	97,200	[illegible]	[illegible]	[illegible]	[illegible]
97,200	97,250	[illegible]	[illegible]	[illegible]	[illegible]
97,250	97,300	[illegible]	[illegible]	[illegible]	[illegible]
97,300	97,350	[illegible]	[illegible]	[illegible]	[illegible]
97,350	97,400	[illegible]	[illegible]	[illegible]	[illegible]
97,400	97,450	[illegible]	[illegible]	[illegible]	[illegible]
97,450	97,500	[illegible]	[illegible]	[illegible]	[illegible]
97,500	97,550	[illegible]	[illegible]	[illegible]	[illegible]
97,550	97,600	[illegible]	[illegible]	[illegible]	[illegible]
97,600	97,650	[illegible]	[illegible]	[illegible]	[illegible]
97,650	97,700	[illegible]	[illegible]	[illegible]	[illegible]
97,700	97,750	[illegible]	[illegible]	[illegible]	[illegible]
97,750	97,800	[illegible]	[illegible]	[illegible]	[illegible]
97,800	97,850	[illegible]	[illegible]	[illegible]	[illegible]
97,850	97,900	[illegible]	[illegible]	[illegible]	[illegible]
97,900	97,950	[illegible]	[illegible]	[illegible]	[illegible]
97,950	98,000	[illegible]	[illegible]	[illegible]	[illegible]
98,000					
98,000	98,050	[illegible]	[illegible]	[illegible]	[illegible]
98,050	98,100	[illegible]	[illegible]	[illegible]	[illegible]
98,100	98,150	[illegible]	[illegible]	[illegible]	[illegible]
98,150	98,200	[illegible]	[illegible]	[illegible]	[illegible]
98,200	98,250	[illegible]	[illegible]	[illegible]	[illegible]
98,250	98,300	[illegible]	[illegible]	[illegible]	[illegible]
98,300	98,350	[illegible]	[illegible]	[illegible]	[illegible]
98,350	98,400	[illegible]	[illegible]	[illegible]	[illegible]
98,400	98,450	[illegible]	[illegible]	[illegible]	[illegible]
98,450	98,500	[illegible]	[illegible]	[illegible]	[illegible]
98,500	98,550	[illegible]	[illegible]	[illegible]	[illegible]
98,550	98,600	[illegible]	[illegible]	[illegible]	[illegible]
98,600	98,650	[illegible]	[illegible]	[illegible]	[illegible]
98,650	98,700	[illegible]	[illegible]	[illegible]	[illegible]
98,700	98,750	[illegible]	[illegible]	[illegible]	[illegible]
98,750	98,800	[illegible]	[illegible]	[illegible]	[illegible]
98,800	98,850	[illegible]	[illegible]	[illegible]	[illegible]
98,850	98,900	[illegible]	[illegible]	[illegible]	[illegible]
98,900	98,950	[illegible]	[illegible]	[illegible]	[illegible]
98,950	99,000	[illegible]	[illegible]	[illegible]	[illegible]
99,000					
99,000	99,050	[illegible]	[illegible]	[illegible]	19,009
99,050	99,100	[illegible]	[illegible]	[illegible]	19,021
99,100	99,150	[illegible]	[illegible]	[illegible]	19,034
99,150	99,200	[illegible]	[illegible]	[illegible]	19,046
99,200	99,250	[illegible]	[illegible]	[illegible]	19,059
99,250	99,300	[illegible]	[illegible]	[illegible]	19,071
99,300	99,350	[illegible]	[illegible]	[illegible]	19,084
99,350	99,400	[illegible]	[illegible]	[illegible]	19,096
99,400	99,450	[illegible]	[illegible]	[illegible]	19,109
99,450	99,500	[illegible]	[illegible]	[illegible]	19,121
99,500	99,550	[illegible]	[illegible]	[illegible]	19,134
99,550	99,600	[illegible]	[illegible]	[illegible]	19,146
99,600	99,650	[illegible]	[illegible]	[illegible]	19,159
99,650	99,700	[illegible]	[illegible]	[illegible]	19,171
99,700	99,750	[illegible]	[illegible]	[illegible]	19,184
99,750	99,800	[illegible]	[illegible]	[illegible]	19,196
99,800	99,850	[illegible]	[illegible]	[illegible]	19,209
99,850	99,900	[illegible]	[illegible]	[illegible]	19,221
99,900	99,950	[illegible]	[illegible]	[illegible]	19,234
99,950	100,000	[illegible]	[illegible]	[illegible]	[illegible]

$100,000
or over

* This column must also be used by a qualifying widow(er).

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1040A, 2017 Tax Table. Washington, DC: 2017.

Appendix E

IRS Tax Forms

Included in this Appendix are copies of select IRS tax forms that are used throughout *Fundamentals of Taxation*. All of these forms are also available for download from the IRS Web site: www.irs.gov.

page E-2

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2017** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, ending , 20 | See separate instructions.

Your first name and initial	Last name	Your social security number
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
Foreign country name	Foreign province/state/county	Foreign postal code

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) (see instructions)

Exemptions

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a . . . . Boxes checked on 6a and 6b
b ☐ **Spouse** . . . . No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions)
c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐ — Dependents on 6c not entered above

d Total number of exemptions claimed . . . . Add numbers on lines above ▶

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

7 Wages, salaries, tips, etc. Attach Form(s) W-2 7
8a **Taxable** interest. Attach Schedule B if required 8a
b **Tax-exempt** interest. **Do not** include on line 8a . . . 8b
9a Ordinary dividends. Attach Schedule B if required 9a
b Qualified dividends 9b
10 Taxable refunds, credits, or offsets of state and local income taxes 10
11 Alimony received 11
12 Business income or (loss). Attach Schedule C or C-EZ 12
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ 13
14 Other gains or (losses). Attach Form 4797 14
15a IRA distributions 15a | b Taxable amount 15b
16a Pensions and annuities 16a | b Taxable amount 16b
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17
18 Farm income or (loss). Attach Schedule F 18
19 Unemployment compensation 19
20a Social security benefits 20a | b Taxable amount . . . 20b
21 Other income. List type and amount 21
22 Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶ 22

Adjusted Gross Income

23 Educator expenses . 23
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24
25 Health savings account deduction. Attach Form 8889 . 25
26 Moving expenses. Attach Form 3903 26
27 Deductible part of self-employment tax. Attach Schedule SE . 27
28 Self-employed SEP, SIMPLE, and qualified plans . . 28
29 Self-employed health insurance deduction 29
30 Penalty on early withdrawal of savings 30
31a Alimony paid **b** Recipient's SSN ▶ 31a
32 IRA deduction . 32
33 Student loan interest deduction 33
34 Reserved for future use 34
35 Domestic production activities deduction. Attach Form 8903 35
36 Add lines 23 through 35 36
37 Subtract line 36 from line 22. This is your **adjusted gross income** ▶ 37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2017)

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1040. Washington, DC: 2017.

Form 1040 (2017) Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	
	39a	Check if: ☐ **You** were born before January 2, 1953, ☐ Blind. ☐ **Spouse** was born before January 2, 1953, ☐ Blind. } **Total boxes checked ▶ 39a** ☐		
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐		
Standard Deduction for— • People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,350 Married filing jointly or Qualifying widow(er), $12,700 Head of household, $9,350	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40	
	41	Subtract line 40 from line 38	41	
	42	**Exemptions.** [illegible]	42	
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
	44	**Tax** (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐	44	
	45	**Alternative minimum tax** (see instructions). Attach Form 6251	45	
	46	Excess advance premium tax credit repayment. Attach Form 8962	46	
	47	Add lines 44, 45, and 46 ▶	47	
	48	Foreign tax credit. Attach Form 1116 if required — 48		
	49	Credit for child and dependent care expenses. Attach Form 2441 — 49		
	50	Education credits from Form 8863, line 19 — 50		
	51	Retirement savings contributions credit. Attach Form 8880 — 51		
	52	Child tax credit. Attach Schedule 8812, if required — 52		
	53	Residential energy credit. Attach Form 5695 — 53		
	54	Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐ — 54		
	55	Add lines 48 through 54. These are your **total credits**	55	
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶	56	
Other Taxes	57	Self-employment tax. Attach Schedule SE	57	
	58	Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919	58	
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
	60a	Household employment taxes from Schedule H	60a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
	61	Health care: individual responsibility (see instructions) Full-year coverage ☐	61	
	62	Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s)	62	
	63	Add lines 56 through 62. This is your **total tax** ▶	63	
Payments	64	Federal income tax withheld from Forms W-2 and 1099 — 64		
If you have a qualifying child, attach Schedule EIC.	65	2017 estimated tax payments and amount applied from 2016 return — 65		
	66a	**Earned income credit (EIC)** — 66a		
	b	Nontaxable combat pay election — 66b		
	67	Additional child tax credit. Attach Schedule 8812 — 67		
	68	American opportunity credit from Form 8863, line 8 — 68		
	69	Net premium tax credit. Attach Form 8962 — 69		
	70	Amount paid with request for extension to file — 70		
	71	Excess social security and tier 1 RRTA tax withheld — 71		
	72	Credit for federal tax on fuels. Attach Form 4136 — 72		
	73	Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐ — 73		
	74	Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶	74	
Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**	75	
	76a	Amount of line 75 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	76a	
Direct deposit? See instructions.	▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings		
	▶ d	Account number		
	77	Amount of line 75 you want **applied to your 2018 estimated tax** ▶ 77		
Amount You Owe	78	**Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78	
	79	Estimated tax penalty (see instructions) — 79		

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here Joint return? See instructions. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. [illegible]

Your signature | Date | Your occupation | Daytime phone number

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN

Firm's name ▶ | Firm's EIN ▶

Firm's address ▶ | Phone no.

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2017)

Form **1040A** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return (99) **2017** IRS Use Only—Do not write or staple in this space.

Your first name and initial	Last name	OMB No. 1545-0074 **Your social security number**
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
Foreign country name	Foreign province/state/county	Foreign postal code

Filing status
Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) (see instructions)

Exemptions

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a.
b ☐ **Spouse**
c **Dependents:**

If more than six dependents, see instructions.

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐
			☐
			☐

Boxes checked on 6a and 6b
No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
Add numbers on lines above ▶

d Total number of exemptions claimed.

Income

Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2.	7
8a	**Taxable** interest. Attach Schedule B if required.	8a
b	**Tax-exempt** interest. **Do not** include on line 8a. 8b	
9a	Ordinary dividends. Attach Schedule B if required.	9a
b	Qualified dividends (see instructions). 9b	
10	Capital gain distributions (see instructions).	10
11a	IRA distributions. 11a — **11b** Taxable amount (see instructions).	11b
12a	Pensions and annuities. 12a — **12b** Taxable amount (see instructions).	12b
13	Unemployment compensation and Alaska Permanent Fund dividends.	13
14a	Social security benefits. 14a — **14b** Taxable amount (see instructions).	14b
15	Add lines 7 through 14b (far right column). This is your **total income.** ▶	15

Adjusted gross income

16	Educator expenses (see instructions). 16	
17	IRA deduction (see instructions). 17	
18	Student loan interest deduction (see instructions). 18	
19	Reserved for future use. 19	
20	Add lines 16 through 19. These are your **total adjustments.**	20
21	Subtract line 20 from line 15. This is your **adjusted gross income.** ▶	21

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11327A Form **1040A** (2017)

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1040A. Washington, DC: 2017.

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Form 1040A (2017) Page **2**

Tax, credits, and payments

22	Enter the amount from line 21 (adjusted gross income).	22	
23a	Check if: ☐ **You** were born before January 2, 1953, ☐ Blind; ☐ **Spouse** was born before January 2, 1953, ☐ Blind. **Total boxes checked** ▶ 23a ☐		
b	If you are married filing separately and your spouse itemizes deductions, check here ▶ 23b ☐		
24	Enter your **standard deduction**.	24	
25	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25	
26	**Exemptions.** Multiply $4,050 by the number on line 6d.	26	
27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your **taxable income.**	▶ 27	
28	**Tax,** including any alternative minimum tax (see instructions). 28		
29	Excess advance premium tax credit repayment. Attach Form 8962. 29		
30	Add lines 28 and 29.	30	
31	Credit for child and dependent care expenses. Attach Form 2441. 31		
32	Credit for the elderly or the disabled. Attach Schedule R. 32		
33	Education credits from Form 8863, line 19. 33		
34	Retirement savings contributions credit. Attach Form 8880. 34		
35	Child tax credit. Attach Schedule 8812, if required. 35		
36	Add lines 31 through 35. These are your **total credits.**	36	
37	Subtract line 36 from line 30. If line 36 is more than line 30, enter -0-.	37	
38	Health care: individual responsibility (see instructions). Full-year coverage ☐	38	
39	Add line 37 and line 38. This is your **total tax.**	39	
40	Federal income tax withheld from Forms W-2 and 1099. 40		
41	2017 estimated tax payments and amount applied from 2016 return. 41		
42a	**Earned income credit (EIC).** 42a		
b	Nontaxable combat pay election. 42b		
43	Additional child tax credit. Attach Schedule 8812. 43		
44	American opportunity credit from Form 8863, line 8. 44		
45	Net premium tax credit. Attach Form 8962. 45		
46	Add lines 40, 41, 42a, 43, 44, and 45. These are your **total payments.**	▶ 46	

Standard Deduction for—
- People who check any box on line 23a or 23b **or** who can be claimed as a dependent, see instructions.
- All others: Single or Married filing separately, $6,350; Married filing jointly or Qualifying widow(er), $12,700; Head of household, $9,350

If you have a qualifying child, attach Schedule EIC.

Refund

47	If line 46 is more than line 39, subtract line 39 from line 46. This is the amount you **overpaid.**	47	
48a	Amount of line 47 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	48a	
▶ b	Routing number ☐☐☐☐☐☐☐☐☐ ▶ c Type: ☐ Checking ☐ Savings		
▶ d	Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐		
49	Amount of line 47 you want **applied to your 2018 estimated tax.** 49		

Direct deposit? See instructions and fill in 48b, 48c, and 48d or Form 8888.

Amount you owe

50	**Amount you owe.** Subtract line 46 from line 39. For details on how to pay, see instructions.	▶ 50	
51	Estimated tax penalty (see instructions). 51		

Third party designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) ☐☐☐☐☐☐

Paid preparer use only

Print/Type preparer's name	Preparer's signature	Date	Check ▶ ☐ if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

Go to *www.irs.gov/Form1040A* for instructions and the latest information. Form **1040A** (2017)

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Department of the Treasury—Internal Revenue Service

Form **1040EZ** **Income Tax Return for Single and Joint Filers With No Dependents** (99) **2017** OMB No. 1545-0074

Your first name and initial	Last name	Your social security number
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	▲ Make sure the SSN(s) above are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
Foreign country name	Foreign province/state/county	Foreign postal code

Income

Attach Form(s) W-2 here.

Enclose, but do not attach, any payment.

1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2. **1**

2 Taxable interest. If the total is over $1,500, you cannot use Form 1040EZ. **2**

3 Unemployment compensation and Alaska Permanent Fund dividends (see instructions). **3**

4 Add lines 1, 2, and 3. This is your **adjusted gross income.** **4**

5 If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back.
☐ **You** ☐ **Spouse**
If no one can claim you (or your spouse if a joint return), enter $10,400 if **single;** $20,800 if **married filing jointly.** See back for explanation. **5**

6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your **taxable income.** ▶ **6**

Payments, Credits, and Tax

7 Federal income tax withheld from Form(s) W-2 and 1099. **7**

8a **Earned income credit (EIC)** (see instructions) **8a**

b Nontaxable combat pay election. 8b

9 Add lines 7 and 8a. These are your **total payments and credits.** ▶ **9**

10 **Tax.** Use the amount on **line 6 above** to find your tax in the tax table in the instructions. Then, enter the tax from the table on this line. **10**

11 Health care: individual responsibility (see instructions) Full-year coverage ☐ **11**

12 Add lines 10 and 11. This is your **total tax.** **12**

Refund

Have it directly deposited? See instructions and fill in 13b, 13c, and 13d, or Form 8888.

13a If line 9 is larger than line 12, subtract line 12 from line 9. This is your **refund.** If Form 8888 is attached, check here ▶ ☐ **13a**

▶ b Routing number ▶ c Type: ☐ Checking ☐ Savings

▶ d Account number

Amount You Owe

14 If line 12 is larger than line 9, subtract line 9 from line 12. This is the **amount you owe.** For details on how to pay, see instructions. ▶ **14**

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here

Under penalties of perjury, I declare that I have examined this return and, to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Joint return? See instructions.

Keep a copy for your records.

Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶		Firm's EIN ▶		
Firm's address ▶		Phone no.		

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11329W Form **1040EZ** (2017)

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 1040EZ. Washington, DC: 2017.

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Form **2106**

Department of the Treasury
Internal Revenue Service (99)

Employee Business Expenses

▶ Attach to Form 1040 or Form 1040NR.

▶ Go to *www.irs.gov/Form2106* for instructions and the latest information.

OMB No. 1545-0074

2017

Attachment Sequence No. 129

Your name	Occupation in which you incurred expenses	Social security number

Part I **Employee Business Expenses and Reimbursements**

Step 1 Enter Your Expenses		**Column A** Other Than Meals and Entertainment	**Column B** Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1		
2 Parking fees, tolls, and transportation, including train, bus, etc., that **didn't** involve overnight travel or commuting to and from work	2		
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Don't** include meals and entertainment	3		
4 Business expenses not included on lines 1 through 3. **Don't** include meals and entertainment	4		
5 Meals and entertainment expenses (see instructions)	5		
6 **Total expenses.** In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6		

Note: If you weren't reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7 Enter reimbursements received from your employer that **weren't** reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7		

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8)	8		
Note: If **both columns** of line 8 are zero, you can't deduct employee business expenses. Stop here and attach Form 2106 to your return.			
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (0.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (0.80) instead of 50%. For details, see instructions.)	9		
10 Add the amounts on line 9 of both columns and enter the total here. **Also, enter the total on Schedule A (Form 1040), line 21** (or on **Schedule A (Form 1040NR), line 7**). (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.) ▶			10

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11700N Form **2106** (2017)

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Part II **Vehicle Expenses**

Section A—General Information (You must complete this section if you are claiming vehicle expenses.)

			(a) Vehicle 1	(b) Vehicle 2
11	Enter the date the vehicle was placed in service	11	/ /	/ /
12	Total miles the vehicle was driven during 2017	12	miles	miles
13	Business miles included on line 12	13	miles	miles
14	Percent of business use. Divide line 13 by line 12	14	%	%
15	Average daily roundtrip commuting distance	15	miles	miles
16	Commuting miles included on line 12	16	miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	17	miles	miles

18	Was your vehicle available for personal use during off-duty hours?	☐ Yes	☐ No
19	Do you (or your spouse) have another vehicle available for personal use?	☐ Yes	☐ No
20	Do you have evidence to support your deduction?	☐ Yes	☐ No
21	If "Yes," is the evidence written?	☐ Yes	☐ No

Section B—Standard Mileage Rate (See the instructions for Part II to find out whether to complete this section or Section C.)

22	Multiply line 13 by 53.5¢ (0.535). Enter the result here and on line 1	22	

Section C—Actual Expenses

			(a) Vehicle 1		(b) Vehicle 2	
23	Gasoline, oil, repairs, vehicle insurance, etc.	23				
24a	Vehicle rentals	24a				
b	Inclusion amount (see instructions)	24b				
c	Subtract line 24b from line 24a	24c				
25	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions)	25				
26	Add lines 23, 24c, and 25.	26				
27	Multiply line 26 by the percentage on line 14	27				
28	Depreciation (see instructions)	28				
29	Add lines 27 and 28. Enter total here and on line 1	29				

Section D—Depreciation of Vehicles (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)

			(a) Vehicle 1		(b) Vehicle 2	
30	Enter cost or other basis (see instructions)	30				
31	Enter section 179 deduction and special allowance (see instructions)	31				
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance)	32				
33	Enter depreciation method and percentage (see instructions)	33				
34	Multiply line 32 by the percentage on line 33 (see instructions)	34				
35	Add lines 31 and 34	35				
36	Enter the applicable limit explained in the line 36 instructions	36				
37	Multiply line 36 by the percentage on line 14	37				
38	Enter the **smaller** of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above	38				

Form **2106** (2017)

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 2106. Washington, DC: 2017.

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Form **4562** — Department of the Treasury, Internal Revenue Service (99)

Depreciation and Amortization

(Including Information on Listed Property)

▶ Attach to your tax return.

▶ Go to *www.irs.gov/Form4562* for instructions and the latest information.

OMB No. 1545-0172 — **2017** — Attachment Sequence No. **179**

Name(s) shown on return	Business or activity to which this form relates	**Identifying number**

Part I — Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	

6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost

7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the **smaller** of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2016 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11	12	
13	Carryover of disallowed deduction to 2018. Add lines 9 and 10, less line 12 ▶	13	

Note: Don't use Part II or Part III below for listed property. Instead, use Part V.

Part II — Special Depreciation Allowance and Other Depreciation (Don't include listed property.) (See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III — MACRS Depreciation (Don't include listed property.) (See instructions.)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2017	17	
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here ▶ ☐		

Section B—Assets Placed in Service During 2017 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2017 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV — Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	
22	**Total.** Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22	
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 12906N Form **4562** (2017)

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Part V **Listed Property** (Include automobiles, certain other vehicles, certain aircraft, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete **only** 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A—Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed? ☐ Yes ☐ No **24b** If "Yes," is the evidence written? ☐ Yes ☐ No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions) .					25			
26 Property used more than 50% in a qualified business use:								
		%						
		%						
		%						
27 Property used 50% or less in a qualified business use:								
		%				S/L –		
		%				S/L –		
		%				S/L –		
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1					28			
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1							29	

Section B—Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
30 Total business/investment miles driven during the year (**don't** include commuting miles) .												
31 Total commuting miles driven during the year												
32 Total other personal (noncommuting) miles driven												
33 Total miles driven during the year. Add lines 30 through 32												
34 Was the vehicle available for personal use during off-duty hours?	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
35 Was the vehicle used primarily by a more than 5% owner or related person? . .												
36 Is another vehicle available for personal use?												

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who **aren't** more than 5% owners or related persons (see instructions).

	Yes	No
37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners . .		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.) . . .		

Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," don't complete Section B for the covered vehicles.

Part VI **Amortization**

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2017 tax year (see instructions):					
43 Amortization of costs that began before your 2017 tax year				43	
44 **Total.** Add amounts in column (f). See the instructions for where to report				44	

Form **4562** (2017)

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 4562. Washington, DC: 2017.

Form **4797**

Department of the Treasury
Internal Revenue Service

Sales of Business Property

(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

► Attach to your tax return.

► Go to *www.irs.gov/Form4797* for instructions and the latest information.

OMB No. 1545-0184

2017

Attachment Sequence No. **27**

Name(s) shown on return	**Identifying number**

1 Enter the gross proceeds from sales or exchanges reported to you for 2017 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20. See instructions 1

Part I **Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (see instructions)

2 (a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)

3 Gain, if any, from Form 4684, line 39 3

4 Section 1231 gain from installment sales from Form 6252, line 26 or 37 4

5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824 5

6 Gain, if any, from line 32, from other than casualty or theft 6

7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows 7

Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.

Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you didn't have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

8 Nonrecaptured net section 1231 losses from prior years. See instructions 8

9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return. See instructions 9

Part II **Ordinary Gains and Losses** (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11 Loss, if any, from line 7 . . . . . 11 ( )

12 Gain, if any, from line 7 or amount from line 8, if applicable 12

13 Gain, if any, from line 31 13

14 Net gain or (loss) from Form 4684, lines 31 and 38a 14

15 Ordinary gain from installment sales from Form 6252, line 25 or 36 15

16 Ordinary gain or (loss) from like-kind exchanges from Form 8824 16

17 Combine lines 10 through 16 17

18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:

a If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions . . 18a

b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14 18b

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 13086I Form **4797** (2017)

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Form 4797 (2017) Page 2

Part III **Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255** (see instructions)

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A		
B		
C		
D		

These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20 Gross sales price (**Note:** *See line 1 before completing.*)	20				
21 Cost or other basis plus expense of sale	21				
22 Depreciation (or depletion) allowed or allowable	22				
23 Adjusted basis. Subtract line 22 from line 21	23				
24 Total gain. Subtract line 23 from line 20	24				
25 **If section 1245 property:**					
a Depreciation allowed or allowable from line 22	25a				
b Enter the **smaller** of line 24 or 25a	25b				
26 **If section 1250 property:** If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a Additional depreciation after 1975. See instructions	26a				
b Applicable percentage multiplied by the **smaller** of line 24 or line 26a. See instructions	26b				
c Subtract line 26a from line 24. If residential rental property or line 24 isn't more than line 26a, skip lines 26d and 26e	26c				
d Additional depreciation after 1969 and before 1976	26d				
e Enter the **smaller** of line 26c or 26d	26e				
f Section 291 amount (corporations only)	26f				
g Add lines 26b, 26e, and 26f	26g				
27 **If section 1252 property:** Skip this section if you didn't dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a Soil, water, and land clearing expenses	27a				
b Line 27a multiplied by applicable percentage. See instructions	27b				
c Enter the **smaller** of line 24 or 27b	27c				
28 **If section 1254 property:**					
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion. See instructions	28a				
b Enter the **smaller** of line 24 or 28a	28b				
29 **If section 1255 property:**					
a Applicable percentage of payments excluded from income under section 126. See instructions	29a				
b Enter the **smaller** of line 24 or 29a. See instructions	29b				

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	32	

Part IV **Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less** (see instructions)

		(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33		
34 Recomputed depreciation. See instructions	34		
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35		

Form **4797** (2017)

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 4797. Washington, DC: 2017.

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SCHEDULE A (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions

▶ Go to *www.irs.gov/ScheduleA* for instructions and the latest information.
▶ Attach to Form 1040.

OMB No. 1545-0074

2017

Attachment Sequence No. 07

Name(s) shown on Form 1040 | Your social security number

Section	Line	Description	Box	Amount
Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.		
	1	Medical and dental expenses **(see instructions)**	1	
	2	Enter amount from Form 1040, line 38 [2]		
	3	Multiply line 2 by 10% (0.10)	3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4
Taxes You Paid	5	State and local **(check only one box):**		
		a ☐ Income taxes, **or** / b ☐ General sales taxes	5	
	6	Real estate taxes (see instructions)	6	
	7	Personal property taxes	7	
	8	Other taxes. List type and amount ▶	8	
	9	Add lines 5 through 8		9
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10	
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11	
Note: Your mortgage interest deduction may be limited (see instructions).	12	Points not reported to you on Form 1098. See instructions for special rules	12	
	13	Reserved	13	
	14	Investment interest. Attach Form 4952 if required. See instructions.	14	
	15	Add lines 10 through 14		15
Gifts to Charity	16	Gifts by cash or check. If you made any gift of $250 or more, see instructions	16	
If you made a gift and got a benefit for it, see instructions.	17	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	17	
	18	Carryover from prior year	18	
	19	Add lines 16 through 18		19
Casualty and Theft Losses	20	Casualty or theft loss(es). Attach Form 4684. See instructions		20
Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions. ▶	21	
	22	Tax preparation fees	22	
	23	Other expenses—investment, safe deposit box, etc. List type and amount ▶	23	
	24	Add lines 21 through 23	24	
	25	Enter amount from Form 1040, line 38 [25]		
	26	Multiply line 25 by 2% (0.02)	26	
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-		27
Other Miscellaneous Deductions	28	Other—from list in instructions. List type and amount ▶		28
Total Itemized Deductions	29	Is Form 1040, line 38, over $156,900? ☐ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. ☐ **Yes.** Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.		29
	30	If you elect to itemize deductions even though they are less than your standard deduction, check here ▶ ☐		

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C Schedule A (Form 1040) 2017

Source: U.S. Department of the Treasury, Internal Revenue Service, SCHEDULE A (Form 1040). Washington, DC: 2017.

SCHEDULE B
(Form 1040A or 1040)

Department of the Treasury, Internal Revenue Service (99)

Interest and Ordinary Dividends

▶ Attach to Form 1040A or 1040.
▶ Go to *www.irs.gov/ScheduleB* for instructions and the latest information.

OMB No. 1545-0074

2017

Attachment Sequence No. **08**

Name(s) shown on return | **Your social security number**

Part I Interest

(See instructions and the instructions for Form 1040A, or Form 1040, line 8a.)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address ▶	1	
2	Add the amounts on line 1	2	
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶	4	

Note: If line 4 is over $1,500, you must complete Part III.

Part II Ordinary Dividends

(See instructions and the instructions for Form 1040A, or Form 1040, line 9a.)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

			Amount
5	List name of payer ▶	5	
6	Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶	6	

Note: If line 6 is over $1,500, you must complete Part III.

Part III Foreign Accounts and Trusts

(See instructions.)

You must complete this part if you **(a)** had over $1,500 of taxable interest or ordinary dividends; **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

		Yes	No
7a	At any time during 2017, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions		
	If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements		
b	If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ▶		
8	During 2017, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17146N **Schedule B (Form 1040A or 1040) 2017**

Source: U.S. Department of the Treasury, Internal Revenue Service, SCHEDULE B (Form 1040A or 1040). Washington, DC: 2017.

SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Profit or Loss From Business
(Sole Proprietorship)

▶ Go to *www.irs.gov/ScheduleC* for instructions and the latest information.
▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2017

Attachment Sequence No. 09

Name of proprietor | **Social security number (SSN)**

A Principal business or profession, including product or service (see instructions) | **B** Enter code from instructions ▶

C Business name. If no separate business name, leave blank. | **D** Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.) ▶
City, town or post office, state, and ZIP code

F Accounting method (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2017? If "No," see instructions for limit on losses . ☐ Yes ☐ No

H If you started or acquired this business during 2017, check here . . . ▶ ☐

I Did you make any payments in 2017 that would require you to file Form(s) 1099? (see instructions) . . . ☐ Yes ☐ No

J If "Yes," did you or will you file required Forms 1099? . . . ☐ Yes ☐ No

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . ▶ ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6 . . . ▶	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance	21	
				22	Supplies (not included in Part III)	22	
				23	Taxes and licenses	23	
				24	Travel, meals, and entertainment:		
14	Employee benefit programs (other than on line 19)	14		a	Travel	24a	
15	Insurance (other than health)	15		b	Deductible meals and entertainment (see instructions)	24b	
16	Interest:			25	Utilities	25	
a	Mortgage (paid to banks, etc.)	16a		26	Wages (less employment credits)	26	
b	Other	16b		27a	Other expenses (from line 48)	27a	
17	Legal and professional services	17		b	**Reserved for future use**	27b	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27a . . . ▶	28	
29	Tentative profit or (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). **Simplified method filers only:** enter the total square footage of: (a) your home: ____ and (b) the part of your home used for business: ____ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Form 1040, line 12** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32.	31	

32 If you have a loss, check the box that describes your investment in this activity (see instructions).
• If you checked 32a, enter the loss on both **Form 1040, line 12,** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2.** (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on **Form 1041, line 3.**
• If you checked 32b, you **must** attach **Form 6198.** Your loss may be limited.

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P **Schedule C (Form 1040) 2017**

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Part III Cost of Goods Sold (see instructions)

33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation . . . ☐ Yes ☐ No

35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	
36	Purchases less cost of items withdrawn for personal use	36	
37	Cost of labor. Do not include any amounts paid to yourself	37	
38	Materials and supplies	38	
39	Other costs	39	
40	Add lines 35 through 39	40	
41	Inventory at end of year	41	
42	**Cost of goods sold.** Subtract line 41 from line 40. Enter the result here and on line 4	42	

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ ____ / ____ / ____

44 Of the total number of miles you drove your vehicle during 2017, enter the number of miles you used your vehicle for:

a Business ____________ b Commuting (see instructions) ____________ c Other ____________

45 Was your vehicle available for personal use during off-duty hours? . . . ☐ Yes ☐ No

46 Do you (or your spouse) have another vehicle available for personal use? . . . ☐ Yes ☐ No

47a Do you have evidence to support your deduction? . . . ☐ Yes ☐ No

b If "Yes," is the evidence written? . . . ☐ Yes ☐ No

Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

48 **Total other expenses.** Enter here and on line 27a	48	

Source: U.S. Department of the Treasury, Internal Revenue Service, SCHEDULE C (Form 1040). Washington, DC: 2017.

SCHEDULE D (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR.
▶ Go to *www.irs.gov/ScheduleD* for instructions and the latest information.
▶ Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0074

2017

Attachment Sequence No. 12

Name(s) shown on return | **Your social security number**

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b .				
1b Totals for all transactions reported on Form(s) 8949 with **Box A** checked				
2 Totals for all transactions reported on Form(s) 8949 with **Box B** checked				
3 Totals for all transactions reported on Form(s) 8949 with **Box C** checked				

4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 .	4	
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	5	
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your **Capital Loss Carryover Worksheet** in the instructions	6	( )
7 **Net short-term capital gain or (loss).** Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back	7	

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b .				
8b Totals for all transactions reported on Form(s) 8949 with **Box D** checked				
9 Totals for all transactions reported on Form(s) 8949 with **Box E** checked				
10 Totals for all transactions reported on Form(s) 8949 with **Box F** checked.				

11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11	
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12	
13 Capital gain distributions. See the instructions	13	
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your **Capital Loss Carryover Worksheet** in the instructions	14	( )
15 **Net long-term capital gain or (loss).** Combine lines 8a through 14 in column (h). Then go to Part III on the back	15	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H **Schedule D (Form 1040) 2017**

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Schedule D (Form 1040) 2017 Page **2**

Part III **Summary**

16 Combine lines 7 and 15 and enter the result **16**

- If line 16 is a **gain,** enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below.
- If line 16 is a **loss,** skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.
- If line 16 is **zero,** skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.

17 Are lines 15 and 16 **both** gains?
☐ **Yes.** Go to line 18.
☐ **No.** Skip lines 18 through 21, and go to line 22.

18 If you are required to complete the **28% Rate Gain Worksheet** (see instructions), enter the amount, if any, from line 7 of that worksheet . . . . ▶ **18**

19 If you are required to complete the **Unrecaptured Section 1250 Gain Worksheet** (see instructions), enter the amount, if any, from line 18 of that worksheet . . . . ▶ **19**

20 Are lines 18 and 19 **both** zero or blank?
☐ **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). **Don't** complete lines 21 and 22 below.

☐ **No.** Complete the **Schedule D Tax Worksheet** in the instructions. **Don't** complete lines 21 and 22 below.

21 If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the **smaller** of:

- The loss on line 16 or
- ($3,000), or if married filing separately, ($1,500) . . . **21** ( )

Note: When figuring which amount is smaller, treat both amounts as positive numbers.

22 Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?

☐ **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42).

☐ **No.** Complete the rest of Form 1040 or Form 1040NR.

Schedule D (Form 1040) 2017

Source: U.S. Department of the Treasury, Internal Revenue Service, SCHEDULE D (Form 1040). Washington, DC: 2017.

Form **8949**

Department of the Treasury
Internal Revenue Service

Sales and Other Dispositions of Capital Assets

▶ Go to *www.irs.gov/Form8949* for instructions and the latest information.

▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

OMB No. 1545-0074

2017

Attachment Sequence No. **12A**

Name(s) shown on return	**Social security number or taxpayer identification number**

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part I **Short-Term.** Transactions involving capital assets you held 1 year or less are short term. For long-term transactions, see page 2.

Note: You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You *must* check Box A, B, *or* C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☐ **(A)** Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
☐ **(B)** Short-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS
☐ **(C)** Short-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	**Adjustment, if any, to gain or loss.** If you enter an amount in column (g), enter a code in column (f). **See the separate instructions.** (f) Code(s) from instructions	(g) Amount of adjustment	(h) **Gain or (loss).** Subtract column (e) from column (d) and combine the result with column (g)
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 1b** (if **Box A** above is checked), **line 2** (if **Box B** above is checked), or **line 3** (if **Box C** above is checked) ▶							

Note: If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 37768Z Form **8949** (2017)

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Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side	**Social security number or taxpayer identification number**

Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part II **Long-Term.** Transactions involving capital assets you held more than 1 year are long term. For short-term transactions, see page 1.

Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You *must* check Box D, E, *or* F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☐ **(D)** Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
☐ **(E)** Long-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
☐ **(F)** Long-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). **See the separate instructions.** (f) Code(s) from instructions	(g) Amount of adjustment	(h) **Gain or (loss).** Subtract column (e) from column (d) and combine the result with column (g)
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 8b** (if **Box D** above is checked), **line 9** (if **Box E** above is checked), or **line 10** (if **Box F** above is checked) ▶							

Note: If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2017)

Source: U.S. Department of the Treasury, Internal Revenue Service, Form 8949. Washington, DC: 2017.

SCHEDULE E (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Supplemental Income and Loss

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

▶ Attach to Form 1040, 1040NR, or Form 1041.

▶ Go to *www.irs.gov/ScheduleE* for instructions and the latest information.

OMB No. 1545-0074

2017

Attachment Sequence No. **13**

Name(s) shown on return | Your social security number

DRAFT AS OF June 15, 2017 DO NOT FILE

Part I **Income or Loss From Rental Real Estate and Royalties** **Note:** If you are in the business of renting personal property, use **Schedule C** or **C-EZ** (see instructions). If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2017 that would require you to file Form(s) 1099? (see instructions) . . . ☐ **Yes** ☐ **No**

B If "Yes," did you or will you file required Forms 1099? . . . ☐ **Yes** ☐ **No**

1a	Physical address of each property (street, city, state, ZIP code)
A	
B	
C	

1b	Type of Property (from list below)	**2** For each rental real estate property listed above, report the number of fair rental and personal use days. Check the **QJV** box only if you meet the requirements to file as a qualified joint venture. See instructions.		**Fair Rental Days**	**Personal Use Days**	**QJV**
A			**A**			☐
B			**B**			☐
C			**C**			☐

Type of Property:

1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

Income: Properties:		**A**	**B**	**C**
3 Rents received . . .	**3**			
4 Royalties received . . .	**4**			
Expenses:				
5 Advertising . . .	**5**			
6 Auto and travel (see instructions) . . .	**6**			
7 Cleaning and maintenance . . .	**7**			
8 Commissions . . .	**8**			
9 Insurance . . .	**9**			
10 Legal and other professional fees . . .	**10**			
11 Management fees . . .	**11**			
12 Mortgage interest paid to banks, etc. (see instructions)	**12**			
13 Other interest . . .	**13**			
14 Repairs . . .	**14**			
15 Supplies . . .	**15**			
16 Taxes . . .	**16**			
17 Utilities . . .	**17**			
18 Depreciation expense or depletion . . .	**18**			
19 Other (list) ▶	**19**			
20 Total expenses. Add lines 5 through 19 . . .	**20**			
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file **Form 6198** . . .	**21**			
22 Deductible rental real estate loss after limitation, if any, on **Form 8582** (see instructions) . . .	**22**	( )	( )	( )

23a Total of all amounts reported on line 3 for all rental properties . . .	**23a**	
b Total of all amounts reported on line 4 for all royalty properties . . .	**23b**	
c Total of all amounts reported on line 12 for all properties . . .	**23c**	
d Total of all amounts reported on line 18 for all properties . . .	**23d**	
e Total of all amounts reported on line 20 for all properties . . .	**23e**	
24 **Income.** Add positive amounts shown on line 21. **Do not** include any losses . . .	**24**	
25 **Losses.** Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here .	**25**	( )
26 **Total rental real estate and royalty income or (loss).** Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2 . . .	**26**	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11344L Schedule E (Form 1040) 2017

page E-22

Schedule E (Form 1040) 2017 Attachment Sequence No. **13** Page **2**

Name(s) shown on return. Do not enter name and social security number if shown on other side. | **Your social security number**

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II **Income or Loss From Partnerships and S Corporations** **Note:** If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column **(e)** on line 28 and attach **Form 6198.** See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk, excess farm loss, or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section . . . ☐ **Yes** ☐ **No**

28	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk
A			☐		☐
B			☐		☐
C			☐		☐
D			☐		☐

	Passive Income and Loss		Nonpassive Income and Loss		
	(f) Passive loss allowed (attach **Form 8582** if required)	(g) Passive income from **Schedule K-1**	(h) Nonpassive loss from **Schedule K-1**	(i) Section 179 expense deduction from **Form 4562**	(j) Nonpassive income from **Schedule K-1**
A					
B					
C					
D					
29a Totals					
b Totals					

30 Add columns (g) and (j) of line 29a **30**

31 Add columns (f), (h), and (i) of line 29b . . . . . **31** ( )

32 **Total partnership and S corporation income or (loss).** Combine lines 30 and 31. Enter the result here and include in the total on line 41 below **32**

Part III **Income or Loss From Estates and Trusts**

33	(a) Name	(b) Employer identification number
A		
B		

	Passive Income and Loss		Nonpassive Income and Loss	
	(c) Passive deduction or loss allowed (attach **Form 8582** if required)	(d) Passive income from **Schedule K-1**	(e) Deduction or loss from **Schedule K-1**	(f) Other income from **Schedule K-1**
A				
B				
34a Totals				
b Totals				

35 Add columns (d) and (f) of line 34a **35**

36 Add columns (c) and (e) of line 34b . . . . . **36** ( )

37 **Total estate and trust income or (loss).** Combine lines 35 and 36. Enter the result here and include in the total on line 41 below **37**

Part IV **Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder**

38	(a) Name	(b) Employer identification number	(c) Excess inclusion from **Schedules Q,** line 2c (see instructions)	(d) Taxable income (net loss) from **Schedules Q,** line 1b	(e) Income from **Schedules Q,** line 3b

39 Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below **39**

Part V **Summary**

40 Net farm rental income or (loss) from **Form 4835.** Also, complete line 42 below **40**

41 **Total income or (loss).** Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Form 1040, line 17, or Form 1040NR, line 18 ▶ **41**

42 **Reconciliation of farming and fishing income.** Enter your **gross** farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120S), box 17, code V; and Schedule K-1 (Form 1041), box 14, code F (see instructions) . . **42**

43 **Reconciliation for real estate professionals.** If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040 or Form 1040NR from all rental real estate activities in which you materially participated under the passive activity loss rules . . **43**

Schedule E (Form 1040) 2017

Source: U.S. Department of the Treasury, Internal Revenue Service, SCHEDULE E (Form 1040). Washington, DC: 2017.

SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Earned Income Credit

Qualifying Child Information

▶ **Complete and attach to Form 1040A or 1040 only if you have a qualifying child.**

▶ **Go to *www.irs.gov/ScheduleEIC* for the latest information.**

OMB No. 1545-0074

2017

Attachment Sequence No. **43**

Name(s) shown on return	**Your social security number**

Before you begin:

- See the instructions for Form 1040A, lines 42a and 42b, or Form 1040, lines 66a and 66b, to make sure that **(a)** you can take the EIC, and **(b)** you have a qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

CAUTION

- *You can't claim the EIC for a child who didn't live with you for more than half of the year.*
- *If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See the instructions for details.*
- *It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.*

Qualifying Child Information	**Child 1**	**Child 2**	**Child 3**
1 Child's name If you have more than three qualifying children, you have to list only three to get the maximum credit.	First name Last name	First name Last name	First name Last name
2 Child's SSN The child must have an SSN as defined in the instructions for Form 1040A, lines 42a and 42b, or Form 1040, lines 66a and 66b, unless the child was born and died in 2017. If your child was born and died in 2017 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate, death certificate, or hospital medical records showing a live birth.			
3 Child's year of birth	Year ___ ___ ___ ___	Year ___ ___ ___ ___	Year ___ ___ ___ ___
4 a Was the child under age 24 at the end of 2017, a student, and younger than you (or your spouse, if filing jointly)?	☐ **Yes.** *Go to line 5.* ☐ **No.** *Go to line 4b.*	☐ **Yes.** *Go to line 5.* ☐ **No.** *Go to line 4b.*	☐ **Yes.** *Go to line 5.* ☐ **No.** *Go to line 4b.*
b Was the child permanently and totally disabled during any part of 2017?	☐ **Yes.** *Go to line 5.* ☐ **No.** The child is not a qualifying child.	☐ **Yes.** *Go to line 5.* ☐ **No.** The child is not a qualifying child.	☐ **Yes.** *Go to line 5.* ☐ **No.** The child is not a qualifying child.
5 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, eligible foster child, etc.)			
6 Number of months child lived with you in the United States during 2017 • If the child lived with you for more than half of 2017 but less than 7 months, enter "7." • If the child was born or died in 2017 and your home was the child's home for more than half the time he or she was alive during 2017, enter "12."	_______ months *Do not enter more than 12 months.*	_______ months *Do not enter more than 12 months.*	_______ months *Do not enter more than 12 months.*

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 13339M **Schedule EIC (Form 1040A or 1040) 2017**

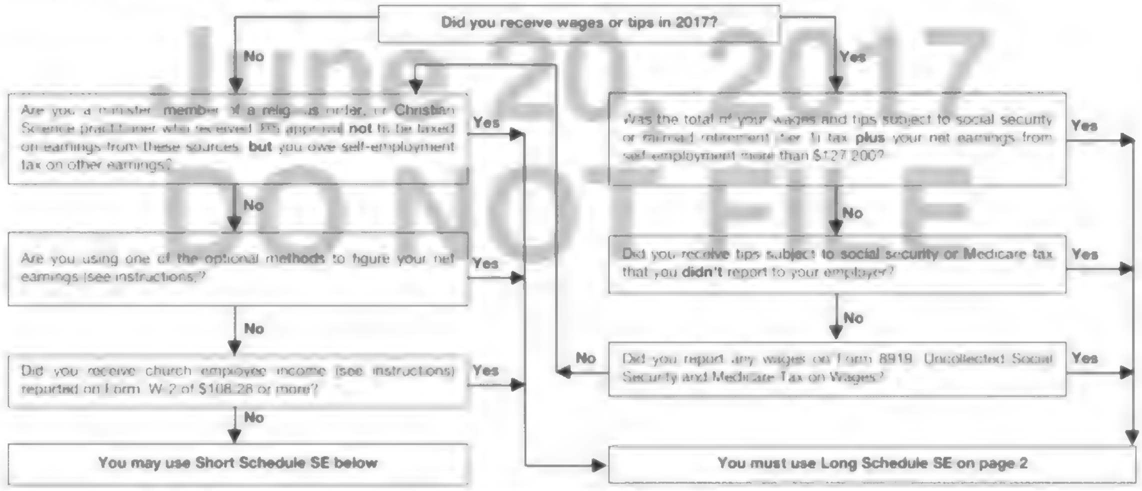
Source: U.S. Department of the Treasury, Internal Revenue Service, SCHEDULE EIC (Form 1040A or 1040). Washington, DC: 2017.

SCHEDULE SE (Form 1040) Department of the Treasury Internal Revenue Service (99)	**Self-Employment Tax** ▶ Go to *www.irs.gov/ScheduleSE* for instructions and the latest information. ▶ Attach to Form 1040 or Form 1040NR.	OMB No. 1545-0074 2017 Attachment Sequence No. 17
Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)	Social security number of person with **self-employment** income ▶	

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note: Use this flowchart **only if** you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b	( )
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	
3	Combine lines 1a, 1b, and 2	3	
4	Multiply line 3 by 92.35% (0.9235). If less than $400, you don't owe self-employment tax; **don't** file this schedule unless you have an amount on line 1b . . . . ▶	4	
	Note: If line 4 is less than $400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5	**Self-employment tax.** If the amount on line 4 is: • $127,200 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on **Form 1040, line 57,** or **Form 1040NR, line 55** • More than $127,200, multiply line 4 by 2.9% (0.029). Then, add $15,772.80 to the result. Enter the total here and on **Form 1040, line 57,** or **Form 1040NR, line 55**	5	
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (0.50). Enter the result here and on **Form 1040, line 27,** or **Form 1040NR, line 27** 6		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11358Z **Schedule SE (Form 1040) 2017**

Source: U.S. Department of the Treasury, Internal Revenue Service, SCHEDULE SE (Form 1040). Washington, DC: 2017.

Schedule SE (Form 1040) 2017 Attachment Sequence No. **17** Page **2**

Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)	Social security number of person with **self-employment** income ▶

Section B—Long Schedule SE

Part I **Self-Employment Tax**

Note: If your only income subject to self-employment tax is **church employee income,** see instructions. Also see instructions for the definition of church employee income.

A	If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had $400 or more of **other** net earnings from self-employment, check here and continue with Part I . . . ▶ ☐		
1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. **Note:** Skip lines 1a and 1b if you use the farm optional method (see instructions)	**1a**	
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	**1b**	( )
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. **Note:** Skip this line if you use the nonfarm optional method (see instructions) . . .	**2**	
3	Combine lines 1a, 1b, and 2 . . .	**3**	
4a	If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 **Note:** If line 4a is less than $400 due to Conservation Reserve Program payments on line 1b, see instructions.	**4a**	
b	If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . .	**4b**	
c	Combine lines 4a and 4b. If less than $400, **stop;** you don't owe self-employment tax. **Exception:** If less than $400 and you had **church employee income,** enter -0- and continue ▶	**4c**	
5a	Enter your **church employee income** from Form W-2. See instructions for definition of church employee income . . . **5a**		
b	Multiply line 5a by 92.35% (0.9235). If less than $100, enter -0-	**5b**	
6	Add lines 4c and 5b . . .	**6**	
7	Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2017	**7**	127,200 00
8a	Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If $127,200 or more, skip lines 8b through 10, and go to line 11 **8a**		
b	Unreported tips subject to social security tax (from Form 4137, line 10) **8b**		
c	Wages subject to social security tax (from Form 8919, line 10) **8c**		
d	Add lines 8a, 8b, and 8c . . .	**8d**	
9	Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 . ▶	**9**	
10	Multiply the **smaller** of line 6 or line 9 by 12.4% (0.124) . . .	**10**	
11	Multiply line 6 by 2.9% (0.029) . . .	**11**	
12	**Self-employment tax.** Add lines 10 and 11. Enter here and on **Form 1040, line 57,** or **Form 1040NR, line 55**	**12**	
13	**Deduction for one-half of self-employment tax.** Multiply line 12 by 50% (0.50). Enter the result here and on **Form 1040, line 27,** or **Form 1040NR, line 27** **13**		

Part II **Optional Methods To Figure Net Earnings** (see instructions)

Farm Optional Method. You may use this method **only** if **(a)** your gross farm income[1] wasn't more than $7,800, **or (b)** your net farm profits[2] were less than $5,630.

14	Maximum income for optional methods . . .	**14**	5,200 00
15	Enter the **smaller** of: two-thirds (2/3) of gross farm income[1] (not less than zero) **or** $5,200. Also include this amount on line 4b above . . .	**15**	

Nonfarm Optional Method. You may use this method **only** if **(a)** your net nonfarm profits[3] were less than $5,630 and also less than 72.189% of your gross nonfarm income,[4] **and (b)** you had net earnings from self-employment of at least $400 in 2 of the prior 3 years. **Caution:** You may use this method no more than five times.

16	Subtract line 15 from line 14 . . .	**16**	
17	Enter the **smaller** of: two-thirds (2/3) of gross nonfarm income[4] (not less than zero) **or** the amount on line 16. Also include this amount on line 4b above . . .	**17**	

[1] From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.

[2] From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.

[3] From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.

[4] From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

Schedule SE (Form 1040) 2017

Appendix F

2017 Federal Income Tax Information

2017 Federal Tax Rate Schedules

Schedule X-Single		
If taxable income is over:	**But not over:**	**The tax is:**
$0	$9,325	10% of taxable income
$9,325	$37,950	$932.50 plus 15% of the excess over $9,325
$37,950	$91,900	$5,226.25 plus 25% of the excess over $37,950
$91,900	$191,650	$18,713.75 plus 28% of the excess over $91,900
$191,650	$416,700	$46,643.75 plus 33% of the excess over $191,650
$416,700	$418,400	$120,910.25 plus 35% of the excess over $416,700
$418,400	—	$121.505.25 plus 39.6% of the excess over $418,400

Schedule Y-1-Married Filing Jointly or Qualifying Widow(er)		
If taxable income is over:	**But not over:**	**The tax is:**

$0	$18,650	10% of taxable income
$18,650	$75,900	$1,865.00 plus 15% of the excess over $18,650
$75,900	$153,100	$10.452.50 plus 25% of the excess over $75,900
$153,100	$233,350	$29,752.50 plus 28% of the excess over $153,100
$233,350	$416,700	$52,222.50 plus 33% of the excess over $233,350
$416,700	$470,700	$112,728.00 plus 35% of the excess over $416,700
$470,700	—	$131,628.00 plus 39.6% of the excess over $470,700

Schedule Y-2-Married Filing Separately

If taxable income is over:	But not over:	The tax is:
$0	$9,325	10% of taxable income
$9,325	$37,950	$932.50 plus 15% of the excess over $9,325
$37,950	$76,550	$5,226.25 plus 25% of the excess over $37,950
$76,550	$116,675	$14,876.25 plus 28% of the excess over $76,550
$116,675	$208,350	$26,111.25 plus 33% of the excess over $116,675
$208,350	$235,350	$56,364.00 plus 35% of the excess over $208,350
$235,350	—	$65,814.00 plus 39.6% of the excess over $235,350

Schedule Z-Head of Household

If taxable income is over:	But not over:	The tax is:
$0	$13,350	10% of taxable income
$13,350	$50,800	$1,335.00 plus 15% of the excess over $13,350
$50,800	$131,200	$6,952.50 plus 25% of the excess over $50,800
$131,200	$212,500	$27,052.50 plus 28% of the excess over $131,200
$212,500	$416,700	$49,816.50 plus 33% of the excess over $212,500
$416,700	$444,550	$117,202.50 plus 35% of the excess over $416,700
		$126,950.00 plus 39.6% of the excess over

$444,550	—	$444,550

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Qualified Dividends & Capital Gains Tax Rates	
Dividends in 10% or 15% tax brackets	0%
Dividends in higher tax brackets	15%
Dividends in 39.6% tax bracket	20%
Long-term capital gains (held greater than 1 year)	
10% or 15% tax brackets	0%
Higher tax brackets	15%
Capital gains in 39.6% tax bracket	20%
Short-term capital gains (held 1 year or less)	Ordinary Tax Rates

Standard Deduction	
Filing Status	**Basic Standard Deduction**
Single	$6,350
Married filing jointly	$12,700
Married filing separately	$6,350
Head of household	$9,350
Qualifying widow(er)	$12,700
Additional over 65 or blind	
Married, qual. widow(er)	$1,250
Single/Head of household	$1,550

Personal/Dependent Exemption $4,050/per individual

Standard Mileage Rates	
Business miles	$0.535
Charity miles	$0.14
Medical miles	$0.17
Moving miles	$0.17

Social Security, Medicare, & Self-Employment Taxes

Employee	Rate	Income Limit

• Social Security	6.2%	$127,200
• Medicare	1.45%	Unlimited
• Total	7.65%	

Self-employed	**Rate**	**Income Limit**
• Social Security	12.4%	$127,200
• Medicare	2.9%	Unlimited
• Total	15.3%	

An additional Medicare tax of 0.9% is assessed on wages and self-employment income in excess of $250,000 (married filing jointly), $125,000 (married filing separately), or $200,000 (all others).

Child Tax Credit	
Amount per child under 17	$1,000
Credit reduction—$50 per $1,000 over AGI threshold	
Married filing jointly	$110,000
Single, head of household	$75,000
Married filing separately	$55,000

Coverdell Educational Savings Accounts

Contributions limit—$2,000 per year per beneficiary, must be in cash, and must be made before the beneficiary turns 18.

Phase-out Thresholds	
Married filing jointly—AGI	$190,000–$220,000
Single—AGI	$95,000–$110,000

Traditional IRA Contribution Deduction

IRA contributions—Lower of $5,500 or the amount of compensation

Individuals who are age 50 or older—Lower of $6,500 or compensation.

Phase-outs if the individual is a participant in another retirement plan:

Married	$99,000-$119,000	Phase-out range
	Greater than $119,000—no deduction	
Single	$62,000-$72,000	Phase-out range

Greater than $72,000—no deduction

Roth IRA Contribution	
Roth contribution	$5,500 or compensation
50 or older	$6,500 or compensation

All Roth contributions are not tax deductible

Joint Returns—$186,000 - $196,000 phase-out range

Single or head of household—$118,000 - $133,000 phase-out range

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